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The Meaning of 2 Per Cent Money

Cheap Money Rates Expected to Prevail for Several Months. Why the Farmer and Merchant in the Country Can Not Borrow at Call Money Rates. Lower Charges Due to Slackening Demand for Commercial Loans. Why Funds Are Abundant

"CHEAP money continues.

"'Call money' was offered at 2 per cent yesterday in New York.

"The New York Federal Reserve Bank's re-discount rate is the lowest for any central bank in the world.

"Money is more plentiful than at any time since the pre-war period.

"In the money market today call money was at 2 per cent. Other quotations were:

	90 Days	4 Mos.	6 Mos.
"Time	2¾	3	3¼
Comm. paper (best known names)	3½-3¾	3½-3¾	3½-3¾"

The frequency with which these statements have found repetition in the daily press indicates pointedly that "cheap money" holds a commanding position today as the outstanding matter in the current American banking and business situation. And there are many signs that the "cheap money" period may prevail for six months or more.

What Is Cheap Money?

BUT the meaning of "cheap money" is a bit obscured when the average outsider, going to his banker for a loan, is told that he must pay an interest rate of from 6 to 8 per cent for the use of the money. The farmer in the Middle West waxes wrathful when he reads that money was offered at 1¾ per cent for use on the New York Stock Exchange, while he is asked to pay up to 8 per cent for a loan until he can sell his wheat next fall. The cotton planter in the South wonders why, with money more plentiful than the time when the Kaiser's gray-clad minions poured across the Belgian border, he must pay just as high a rate of interest as then. The city merchant, with an established bank credit and a good reputation, wants to know why the "best known names" in New York can borrow for six months at 3½ and 3¾ per cent when he can obtain no such terms.

Just where—they ask—is the "catch" in this 1¾ per cent money proposition. Why should business in New York be able to borrow at this lower rate? What is the justification for such a difference in interest rates?

These questions, addressed to Francis H. Sisson, vice-president of the Guaranty Trust Company, brought forth the following response:

"Interest rates are governed by the law of supply and demand. Just now there is an abundance of loanable funds—and so the rates have dropped to the present low levels. When the demand for funds grows greater, interest rates will go up. At the present time the banks have more money than they can keep busy in commercial loans, so, rather than keep this surplus money idle, they are willing to 'rent' it out for a smaller hire.

"But if the farmer, or merchant, out in the country thinks that money, under the same terms that he borrows from the bank, can be obtained in the New York market at 1¾ or 2 per cent, he is, of course, unfamiliar with the situation. A loan of 'call money' is in no way comparable to the usual loan that a farmer, or merchant, obtains from his own bank. 'Call money' is money loaned, subject to demand for immediate payment. Whereas the country bank will lend a wheat or cotton grower $2,000 for ninety days, or nine months, and he can rest assured that no demand will be made for payment until the date of maturity, the borrower of 'call money' may lend it today and demand the return tomorrow. The decree of custom is a day's notice.

"In view of this short notice, it is essential that the collateral securing the loan be readily marketable. Therefore, the banks making 'call loans' require the borrowers to put up as securities bonds and stocks listed on the New York Stock Exchange. These can be sold at any time during the trading hours and converted immediately into cash to meet the 'call loan.' 'Call money' represents funds which are surplus for a short while and which may be needed at any time. Therefore, the banks cannot make loans for any extended time. But, inasmuch as the lender can reclaim the money on one day's notice, he is able to loan out these funds at rates of interest which are generally lower than the prevailing commercial rates. They are not always lower, however, for 'call money' has gone as high as 30 per cent.

The Short Notice

"BUT what good would a $2,000 loan do to a farmer if he never knew what day the bank would call it in? A merchant would not like to borrow money on these conditions, regardless of the rates of interest. Besides the money supply interest rates are determined by such factors as the character of the collateral, the quality of the signatures, the length of the loan and the marketability of the paper.

"Nearly every bank in the country has its New York correspondent, with which it carries a balance. The New York banks perform many services for the out-of-town banks, handling foreign exchange operations, honoring their New York exchange drafts and discounting some of their paper, which is good but not eligible for re-discount by the Federal Reserve banks. In the case of the state banks the law permits them to count as part of their reserves balances carried with the correspondent banks. There

are several national banks in New York which act as correspondents for between 5000 and 6000 banks. These balances are generally referred to as secondary reserves —funds to meet emergencies which may arise —and are the source of the greatest part of the funds available for 'call loans.'

"It is by virtue of this banking arrangement that money is available at these low rates. The New York banks pay interest on these balances. The rate is automatically fixed by a rule of the New York Clearing House Association, which has drawn up a schedule of maximum interest rates. If the re-discount rate of the Federal Reserve Bank is 2 per cent or less than 2½ per cent, a bank cannot pay more than 1 per cent on the credit balances. A sliding scale determines the interest rate when the re-discount rate goes higher. With a 3½ per cent re-discount rate in effect the banks can pay a maximum of 1¾ per cent.

"Prime commercial paper commands a rate that is normally nearest to 'call money.' This paper of the 'best known names' is the notes of manufacturers and merchants of unquestioned standing, marketed through brokers who have the best facilities for selecting the most reliable makers. The notes are not immediately liquid, but afford a good field for the investment of surplus funds that a bank does not need in its commercial operations. Because of its safety and the fact that it is generally for a short term, the banks are willing to pay a lower rate of interest than is charged on the ordinary commercial loans. For there are times when the banks in certain sections of the country have a large portion of their funds idle, due to the seasonal demands for credit, and desire to keep them busy for this period. The prime commercial paper rates are generally ¼ to ½ of 1 per cent lower than those governing the ordinary commercial loans."

Why Commercial Loans Are Lower in New York

"BUT, even so," it was remarked, "the New York commercial loans are generally lower than those in other parts of the country. Why is this so?"

"The essential thing to the banker is the 'spread'," Mr. Sisson continued, "the difference between what he pays for the money and the rate at which he loans it out. If a bank can get money at 2 per cent, it will make just as much profit by lending it at 4 per cent as it would if money, which cost 4 per cent, were put out at 6 per cent. Thus the rate charged is primarily fixed by this consideration, and it accounts, in a large measure, for the different interest rates which prevail over the United States. Banks in some sections have to pay a higher rate on savings accounts and time deposits. They give correspondent banks a greater return on their balances. After all, it comes down to the question of the 'spread'.

"Borrowers in the New York market deal in larger volumes of money, and naturally they get what might be called a 'wholesale rate' on their 'wholesale borrowings'."

"What has brought about this period of 'cheap money'?" was asked.

"Various factors have operated in producing this situation," Mr. Sisson replied. "The most important has been the continued flow of gold imports and the increase in bank reserves. At this time of the year there is the spring and summer reaction that comes with the seasonal slowing down of business. In some lines, such as the textile industry, there is a positive depression. This has reduced the demand for loanable funds and tended to bring about lower money rates.

"A glimpse at the loans and discounts as reported by the Federal Reserve member banks shows strikingly that there has been no such expansion of bank loans in the first half of 1924 as was witnessed during the same period of 1923. The low point in loans and discounts this year was $11,857,000,000 on Jan. 23, and the high point was $12,121,000,000 on April 30. The corresponding high and low figures last year were $11,387,000,000 on Jan. 24, and $11,986,000,000 on April 2, respectively. While the maximum this year exceeds that of the first half of 1923 by $135,000,000, the expansion in 1923 was twice as large as this year. This fact suggests the extent to which the abundance of loanable funds now is due to the heavy imports of gold, which widened the basis for credit operations at a time when the demand for credit was falling off.

Long Time Bonds Floated

"ANOTHER important factor in the situation is the fact that easy money and a good security market have made it possible for many concerns successfully to float bonds and stock issues, thus enabling them to pay off their bank loans and turning more money back into the banks. The government has reduced its interest-bearing debt during the fiscal year nearly $1,000,000,000, thus releasing this large amount of money and sending it out in quest of new employment. Thus it has produced a situation where there are more dollars looking for work than there is profitable work for the dollars. Rather than remain idle, the dollar has accepted jobs at a lower rate of pay."

"How long do you think the 'cheap money' rates will obtain?"

"A general impression seems to prevail that rates will continue low until the seasonal demands of the fall and the final disposition of the political campaign give business a new impetus and expand the use of loanable funds," Mr. Sisson said. "The foreign situation may also affect the market materially, for further progress toward the acceptance and operation of the Dawes plan is expected to stimulate business activities and investment opportunities abroad. This would attract American funds, because money commands higher rates there than here. It is possible that a German loan, floated with proper security, might bring about the investment of many millions of American dollars seeking a profitable return."

With the lessening demand on the part of commercial interests for bank loans, the character of bank operations has changed. Some of the far-seeing bankers flagged the days of cheaper money and invested their idle funds in bonds, which rose in value as the interest rates dropped. One New York bank, it is reported, will make more than a million dollars by the sale of the securities at the enhanced prices, and it is more or less true that all banks, which had surplus funds available, followed the same course.

With the decline of the "call money" rate, the banks are, of course, realizing a smaller return on the balances which they maintained with their correspondents in New York, Boston, Chicago, New Orleans and St. Louis, where the clearing house associations have adhered to the sliding scale of interest rates based on the Federal Reserve re-discount rates.

The Shifting of Balances

IN Philadelphia, Pittsburgh, Cleveland, Buffalo and other cities, however, the clearing houses do not have such a rule and, in some cases, the banks are paying a higher return on the balances than is paid in the five big money centers. While the full facts are not available, there have been reports of shifts in the location of the balances, due to the desire of the out-of-town banks to get the highest return on their secondary reserves.

Largely as the result of conditions which prevailed before the reduction of the Federal Reserve Bank's re-discount rates from 4½ to 4 per cent when the open market quotations had fallen so far below the 4½ per cent level that the banks could earn little profit on money, the New York Clearing House Association, early in July, voted to divorce the maximum rates of interest to be paid by member institutions on various classes of deposits from the re-discount rate. Under the new order, the old schedule of maximum interest rates which may be paid is retained, but the change in rates is made discretionary rather than mandatory.

It is possible that other cities, which have had a system patterned on the New York rules, may follow the lead. Under the new order, the Clearing House Committee is vested with authority to take action after notice has been received of a change in the Federal Reserve re-discount rates.

It is understood that there was another reason for the change. By linking the maximum interest rate with the rediscount rate the Clearing House rule created a situation which tended to bring pressure upon the Federal Reserve Bank to lower its rediscount charge. This was regarded as an undesirable feature because it was felt that the bank ought to be free from any outside pressure.

During the past two years there has been a striking increase in the volume of time deposits in relation to the demand deposits. With the slackening in the demand for commercial loans and the lower rates at which the banks can lend money, it is imperative that the funds be invested so as to bring a steady and ample return. One of the reasons for the gain in time deposits, according to the view of Governor Crissinger of the Federal Reserve Board, is the desire of the bank to convert demand deposits into time deposits, so that the reserves, which the banks have to maintain, may be reduced. The "cheap money" rates have tended to stimulate the further conversion of demand into time deposits.

THE decline in factory employment that became marked in April was still more pronounced in May. A reduction of 4 per cent was reported by both the New York State and Federal Labor Departments, which, added to the previous month's decline, makes the largest decrease in employment since the end of 1920. Since a year ago, the decrease has amounted to about 11 per cent.

Opportunity for Fiduciary Business Under New Revenue Act

By JAMES DUNN, JR.
Vice-President, Union Trust Company, Cleveland

Some Defects in Act Which President Coolidge Regards as Only Temporary Measure. Introduction of New Feature Widens the Fields in Which Banks May Serve. High Estate Taxes Should Be Incentive to Men of Wealth to Establish Trust Agreements.

PRESIDENT COOLIDGE, in commenting on the Revenue Act of 1924, very wisely analyzed his acceptance of its provisions and the reasons therefor. It was acceptable only because it was better than no new law and especially because it carried with it the 25 per cent reduction for taxes payable in 1924—a provision eagerly desired by the tax-paying public. The President fully realized the danger in agreeing to some of the provisions; and it is my belief that he will diligently strive to carry out his promise: that the revenue act is simply a temporary one. The remarks credited to him in the statement which accompanied the signed bill show clearly that, from a financial standpoint, he realizes the situation; especially was this true in his discussion of tax-exempt securities and confiscation of capital.

There is no question but that investment in tax-exempt securities is working a hardship upon the small taxpayers and depleting reserves for active operations of industrial enterprises, which ordinarily would constitute active banking business. In other words, the investment in these securities not only avoids income tax, but it causes heavy withdrawals from banking institutions to whom industry looks for help in time of need. The ready market for these tax-exempt securities, which are now issued at the rate of about $1,000,000,000 per year, encourages extravagance in the administration of states and their subdivisions—a fact which is readily ascertainable by investigating any locality where, I am sure, would be found extravagant use of funds in elaborate school buildings or other improvements. These improvements—mostly far in excess of requirements—place a burden upon their own residents, as the interest on the bonds must be paid, as well as a sinking fund maintained. Thus, while the desire of Congress was to tax the rich man, they force him to withhold his money from business activity, so that he may be free of tax, and place indirectly upon the farmer and owner of homes the burden of taxation.

Tendency Toward Confiscation

IN addition to this problem, the increased inheritance tax is a tendency toward the government confiscating the form of taxation that belongs legitimately to state government. The President's suggestion—calling a conference of taxation officials from the different states for cooperation in the adjustment of taxes—is one that is highly commendable. Financial institutions should be interested in such a conference, as the equality of tax distribution would be the first step toward a normal condition. A return to this situation would be beneficial to the prosperity of the government, thereby favorably affecting not only the financial institutions—which are the stalwarts of advancement—but also the various grades of beneficiaries.

Another objection to the new revenue act presented by the President was the question of publicity, which is a serious one and should be corrected; not the mere fact that the name and address of the taxpayer and the amount of tax paid is posted, but especially the requirements of the appeal board, which are—that all matters should be printed and published. And his remarks incident thereto are very apropos: "The result will be greater delay in the financial settlement of tax cases and may ultimately result in the complete breakdown of the administrative machinery for the collection of taxes." The President closes his statement with the following: "The correction of its difficulties may be left to the next session of Congress. I trust that a bill less political and more economical may be passed at that time. To that end I shall bend all my energies."

Opportunities to Serve

IN the administration of any tax law, banking institutions are important factors, inasmuch as the demands of a tax law reach to every department of a bank in some way; not only is this true in the handling of their own corporate affairs and items for which they are trustee, but for the benefit of their customers who today, more than ever, are reaching out for service. Service is the keynote to a successful banking institution, and nothing reaches the heart of their customers better than assistance rendered in taxation matters. The reason for this is obvious, as it is satisfying a "favor asked" instead of one by way of direct solicitation. A banking institution, alive to its opportunities for betterment of service, fully realizes this importance; and it will do no harm to again reiterate the fact that the effect reaches to every department of the bank.

Outside of the necessary knowledge in the handling of the corporation features of the revenue act and the various requirements incident to trust agreements and accounts, there comes directly the opportunity to serve as fiscal agents in the making of reports on account of taxes withheld at source and dividends paid. There are also the stamp tax provisions to be carefully watched—a fact evidenced by the relief under the new law which eliminates the requirement for a 2-cent stamp per hundred on notes and which became effective July 3, 1924. The tax-free covenant bond rulings and the withholding of tax for non-resident aliens naturally attracts the attention of the banking department through its tellers and auditors, as well as the corporate trust department, in the handling of exemption certificates. Service can also be rendered through the travel department by assistance in obtaining passports; and in addition to this, the publicity department can be benefited by obtaining articles and views of prominent men, especially in Washington, where the bank's representative gains a valuable acquaintance.

In addition to these direct necessities for familiarity with the revenue act, the banking institutions have to meet the requests for information from their customers along various lines, such as the real estate department—in the matter of sales, the bond department—in the matter of investments, the credit department—in reorganizations and proper balance sheets, and the official staff—in the general knowledge of the handling of business matters, so that they may not be in utter disregard of the taxation law. It is true that nothing offers more distress to corporations and individuals than the taxation law, especially at the time of a prospective sale or a profitable business transaction; and the banking institution that can meet and relieve this distress quickest naturally acquires an appreciation which is not only effective as far as the customer is concerned, but his good will boosting qualities reach to untold sources of future business.

The changed provisions incorporated in the new act, knowledge of which is necessary to give to our friends the proper information, are the following:

One of the big advantages to the individuals brought out in the new act is the fact that a married man, or head of family, is

now entitled to an exemption of $2,500, no matter how high his income may be. This will relieve inquiries to a great extent, owing to the fact that it is all one amount and not one that changes at a certain figure.

The surtax feature has been reduced slightly, but as cited above not to the advantage of prosperity. In fact, the surtaxes paid by individuals for 1923 are less than surtaxes that will have to be paid by the same individuals on the same amount in 1924. This peculiarity is due to the fact that a 25 per cent refund is granted for the year 1923, which naturally brought the net amount of tax paid for that year to a lower figure than it will be in the coming year.

Capital Net Gain and Capital Net Loss

UNDER Section 208 of the new Revenue Act in connection with the taxation of capital net gain at a maximum amount of 12½ per cent, one of the new provisions added is in connection with losses.

A taxpayer who derives a capital net loss may elect, for the purpose of computing his correct tax liability under this section to first compute his tax on his ordinary net income at the regular rate and deduct from the tax so arrived at 12½ per cent of the amount of the capital net loss, but the tax computed in this manner shall not be less than the tax liability computed in the regular manner on his ordinary income less the amount of the capital loss.

The following examples are given to elucidate the various forms in which this section of the law is to be handled:

"A" has an ordinary net income as follows: Salary, $20,000; rent, $20,000; interest, $30,000; dividends, $50,000; total income, $120,000. He also derived a capital gain from the sale of stock held for a period of two years or more in the amount of $75,000 and sustained a capital loss from the sale of other securities in the amount of $25,000, making a capital net gain of $50,000. His total net income from all sources is, therefore $170,000, on which the tax would be computed as follows:

Ordinary income		$120,000.00
Less exemption	$2,500	
Less dividends	50,000	
		52,500.00
Amount subject to normal tax		$67,500.00
$ 4,000 at 2%		80.00
4,000 at 4%		160,00
59,500 at 6%		3,570.00
Total normal tax		$ 3,810.00
Surtax on $120,000		24,420.00
Total tax		$28,230.00
Less 25% credit on earned income up to $10,000		55.00
Balance of tax on ordinary income		$28,175.00
Plus 12½% of capital net gain		6,250.00
Total tax liability		$34,425.00

If in the above, the taxpayer had the same ordinary income of $120,000, and instead of having a capital gain of $50,000, sustained a capital net loss of $50,000, the following would apply:

The tax computed in the regular manner on his ordinary income amounts to $28,175, against which he is entitled to deduct 12½ per cent of his capital loss of $50,000, or $6,250, making his correct tax liability $21,925.

Under the Act of 1921

THIS last provision in connection with capital losses is changed from the revenue act of 1921 in that it was possible under the old law to apply the capital net loss against the ordinary net income and compute the tax liability in the regular manner of the entire net.

As an illustration, if this were still possible, the taxpayer's ordinary income being $120,000 and his net loss $50,000 would make him a net income of $70,000. The tax liability computed in the regular manner on a net income of $70,000 in this case would amount to only $8,535. This large difference in tax is due to the fact that under the old law it was possible for a taxpayer sustaining a capital loss to apply this loss against his ordinary income at the highest rate, and consequently receive a greater benefit than 12½ per cent of the amount of the loss.

The examples above clearly set forth the ways in which the tax liability is computed in cases where the capital net gain provision and capital net loss provision would apply, but in certain other cases this would not apply, and the following illustrations are given for the purpose of applying these conditions.

"A" has an ordinary net income as follows: Salary, $5,000; interest, $5,000; dividends, $10,000; total income, $20,000. He also derived a capital gain from the sale of stock held for a period of two years or more in the amount of $10,000 and sustained a capital loss from the sale of other securities in the amount of $5,000, making a capital net gain of $5,000.

His total net income from all sources is, therefore, $25,000, on which the tax would be computed as follows:

Ordinary income		$20,000.00
Less exemption	$ 2,500	
Less dividends	10,000	
		12,500.00
Amount subject to normal tax		7,500.00
$4,000 at 2%		$80.00
3,500 at 4%		140.00
Total normal tax		$220.00
Surtax on $20,000		220.00
Total tax		$440.00
Less credit of 25% on earned income of $5,000		12.50
Balance of tax on ordinary income		$427.50
Plus 12½% of capital net gain		625.00
Total tax		$1,052.50

In the above case the tax liability computed under the capital net gain provision of the law would amount to $1,052.50, but in this particular instance the tax liability computed in this manner would amount to more than the tax liability computed in the regular manner on the total net income, including the capital net gain. He would, therefore, compute his tax in the following manner:

Ordinary income		$20,000.00
Capital net gain		5,000.00
Total net income		$25,000.00
Less exemption	$ 2,500	
Dividends	10,000	
		12,500.00
Amount subject to normal tax		$12,500.00
$4,000 at 2%		$ 80.00
4,000 at 4%		160.00
4,500 at 6%		270.00
Total normal tax		$510.00
Surtax on $25,000		510.00
Total tax		$1,020.00
Less 25% credit on $5,000 earned income.		12.50
Correct tax due		$1,007.50

His Correct Tax Liability

FROM the foregoing two illustrations, it can, therefore, be seen that by computing the tax liability in the regular manner on this total income including the capital net gain, his total tax would amount to only $1,007.50, as against $1,052.50, by using the capital net gain method. He would, therefore, disregard the capital net gain provision of the law and compute his tax on the total income including the capital net gain in the regular manner.

If in the above examples the capital net gain of $5,000 was a capital net loss, the ordinary income being $20,000 would result in a total net income of $15,000.

By following out the provision of the law to the effect that in the case of a capital net loss the tax shall first be computed on the ordinary income against which amount shall be deducted 12½ per cent of the net loss, it would result as follows:

The tax on the ordinary net income, $20,000, would amount to $427.50, and deducting from this amount 12½ per cent of the capital net loss of $5,000, or $625, would leave no tax liability.

It is further provided, however, that in no case shall the tax computed in this manner be less than the tax computed in the regular manner on the total net income after deducting the capital net loss.

The taxpayer in this case would, therefore, be required to compute his tax liability in the regular manner on his total net income of $15,000, which would amount to $97.50, and represents his correct tax liability.

A further change under the capital net gain provision of the new law, as compared with the old law, was that the revenue act of 1921 provided that, if the taxpayer elected to compute his tax under the capital net gain provision, his total tax computed in that manner shall in no case be less than 12½ per cent of his total net income, including the capital net gain. This provision has, however, been eliminated entirely under the new act.

This is possibly one of the most important points of the law that comes before a department of the bank, on account of the fact that it involves a question as to whether sales of property are made or not. The pleasing feature of the change in this provision is also the fact that the sale of an individual's residence can now be treated under this section, whereas heretofore it could not on account of not being classified as an investment.

Liquidating Dividends

ANOTHER feature of the new law which would draw the attention of a banking institution is the question of liquidating dividends; and while it is not entirely clear in the law that this section comes under the capital net gain provision, I have taken it up personally with the Department at Washing-

ton and learned that it was the intention of Congress that the gain in such a case should be within the provision applicable to capital gain.

There are a great many companies which were organized for the purpose of evading surtaxes by keeping accumulated surplus in what they called a "holding" company or an "investment" company. The new law includes investment companies under the penalty provision for accumulations of surplus, in order to avoid surtax, and therefore a great many will be compelled to liquidate. This new provision enables them to do so in the same manner as though they sold to other parties, and the whole transaction will be wholly as a payment in exchange for the stock. If in force more than two years they have the benefit of the capital net gain provision, or the maximum tax of 12½ per cent of the profit.

New Tax on Donor of Gifts and Estate Tax

THE new revenue act of 1924 includes legislation that is of vital importance to the trust companies of the United States.

One of the outstanding features is something entirely new—a tax on the donor of gifts. This was undoubtedly aimed at the trust business in the thought that estate taxes were being evaded by the creation of trusts. The rate of taxation is exactly the same as the estate tax, with the same exemption of $50,000 before taxation applies, which is exclusive of gifts for charitable purposes. There is also a provision in case of taxation on gifts, that if the amount given away should subsequently have to be included in the estate tax report a credit is to be given for the gift tax. Annual returns are to be made by the persons making the gift, showing the taxable gifts within any calendar year after 1923, and this report is required to be filed on or before March 15 of the following year, and at the same time pay the tax imposed thereon. This provision would not prevent irrevocable trusts being created of less than $50,000 within a year with the provision that the donor could increase the amount as he desired. This would enable the donor to add the same amount each year. Of course, the question of gift tax does not enter into the creation of revocable trusts, as this could not be construed as a gift; and there is strength given to this opinion by the fact that the income from a revocable trust must be returned by the donor, even though it is payable to other beneficiaries.

It is also pointed out that the creation of irrevocable trusts of any amount is far more advisable for men of large means than to avoid them on account of the gift tax. The line of reasoning in this statement is that a man of large means could create such a trust and pay the gift tax which would be upon only a portion of his estate and keep it from the high brackets. This would again be beneficial at the time of payment of estate tax, as his estate would be in the lower brackets, whereas, if the provisions for his family or friends by a trust arrangement were avoided on account of gift tax, his estate would be an entity at time of death and the tax would be assessed in the high brackets. So from the standpoint of a gift tax attempting to confiscate property prior to death, as well as subsequent to death, it is a failure.

Trust Agreements

THE extremely high estate tax rates now existing should be an incentive to men of wealth in establishing trust agreements, as the rates are confiscatory and would tend to limit energy and ambition, as well as industrial leadership, if the advantages of a trust were not available.

Some relief from the accumulation of state inheritance taxes being added to the estate tax is given in the new law. It provides that a credit against Federal estate tax, not to exceed 25 per cent thereof, is allowed in respect of any property included in the gross estate under the Federal statute.

Under the new law the creator of revocable trusts as has been stated must return the income as his income, even though he has designated other beneficiaries and special attention is called to the fact that this not only affects the income which must be reported by the donor but it also makes the income payable to other beneficiaries a gift which would be subject to the gift tax.

There is also a provision in the new law relative to allowable deductions, which permits a deduction for charitable bequests or transfers to a trustee or trustees, if to be used exclusively for the specified purpose. In other words, this would permit transfer to trustees for charitable purposes, which could be treated as a deduction and is very beneficial to men desiring to leave in trust or bequeath to charitable, educational, or similar institutions a considerable sum. This would be free of the gift tax and, of course, would lessen the estate tax.

Trust companies should also bear in mind that the provisions of the new act provide for a new method of making fiduciary reports. It is now necessary to make a report on all trusts and pay a tax thereon, but in computing the net income in the fiduciary report a deduction is allowed for the amount of income distributed currently by the fiduciary to the beneficiary. This form will undoubtedly give the names of the beneficiaries to whom the net income has been distributed as an information part of the report, but for the balance which is not distributable a tax will be paid after a $1,000 exemption instead of making a separate report on 1040, as previously required.

Trust Companies' Opportunity

IN my opinion, the new law should be an incentive to greater business. If any one has property that he may lose by confiscation, it becomes his duty to protect his dependents and his business interests, for the remaining years of his life and even for some period after death. This could readily be done through the creation of a trust, which operates under his supervision during his life and under the direction of those he selects after death, with the worthy object in view of making preparation for the future.

The knowledge gained by banking institutions in assisting patrons in tax matters furnishes to the banks valuable information and gives greater confidence in loaning This latter feature is very important from a credit standpoint, as seemingly prosperous companies today might be in a serious financial condition tomorrow on account of the demand of the government for high additional taxes, which must be met in money. It is also true that the balance sheet as submitted by the government hews straighter to the line than the old custom of submitting a balance sheet for loaning purposes. The advantages here are very obvious.

Banking institutions have played a very important part in cooperating with the government during periods of extreme rush. In this spirit it is my belief that the banking institutions have been endeavoring to cooperate with the government in every particular, and that they have assisted the government, as well as their patrons, by bringing out the facts as they really are. Their own desire has been to see that all concerned get a square deal and the taxpayer pays what tax is due.

May Not Assist Customers

THE sentiment appreciating this cooperation from banking institutions is very strong in the Treasury Department at Washington, and rightfully so.

I believe the maze of ideas running like threads through the various branches of The American Bankers Association should be sorted out and gathered into one common point. From such a centralized position all difficulties could be readily adjusted for the benefit of all and proper cooperation undoubtedly would be granted by the Treasury Department.

Million Dollar Incomes Increase

THE Treasury has recently reported that 6,787,401 persons who filed income tax returns for 1922 enjoyed a total net income of $21,336,212,530. There were sixty-seven individuals who admitted that they had made a million dollars or more for that year. There was a surprising increase in the crop of those having a million-dollar-a-year income, inasmuch as the income tax returns for the previous year disclosed that there were only twenty-one in this exclusive circle of wealth. During the first year that the United States entered the war there were 141 Americans who had a net income during 1917 in excess of one million dollars. This stands as the high record.

An analysis of the national net income discloses that $18,952,242,862 came from personal services that were rendered and $5,919,665,492 from the return on property owned.

Dividends accounted for $2,664,219,081 of the income from property, while $2,030,517,413 represented the interest realized from bonds, notes and fiduciary income. Rents and royalties brought in $1,224,928,998.

Deductions amounting to $5,535,695,824 were allowed from the total, leaving a net income of $21,336,212,530 on which income tax was paid.

The returns made by the Bureau of Internal Revenue, showing an increase in the ranks of the millionaires, caused much comment in view of the Treasury's repeated contention that the millionaire class of tax payers was dropping off through the investment of money in tax-exempt securities.

The Profit on Carelessness

By MITCHELL IVES

The United States Government Realizes More Than Half Million Dollars Annually Through Failure of Owners of Federal Securities to Present Them as Interest Ceases. Holders of 4¾ Victories Are Losing $15,000 a Day. Treasury Concerned.

A PROFIT on carelessness of more than a half million dollars annually is being realized by the Un.ted States Government.

A recent statement by the Treasury shows that Federal securities worth more than $19,000,000, upon which all payment of interest has ceased, are presumably in the hands of the holders. They are either blissfully ignorant of the fact that their money is no longer bringing returns to them, or else they are willing to lose the interest on their investment. Included in the total are some of the old issues, which may never be found and never be presented to the Treasury for redemption; in that event the government is just that much richer.

On the last day of May the prosaic Daily Statement of the Treasury told its story of this carelessness thus:

Matured Debt on Which Interest Has Ceased:

Old debt matured at various dates prior to April 1, 1917.	$1,282,160.26
Spanish War loan of 1908-1918	268,280.00
Certificates of indebtedness..	3,031,500.00
3¾ per cent Victory Notes of 1922-23	148,000.00
4¾ per cent Victory Notes of 1922-23—called for redemption Dec. 15, 1922....	5,219,300.00
Matured May 20, 1923....	9,522,550.00
	$19,471,790.26

If only 4 per cent interest were allowed on this outstanding debt, upon which Uncle Sam no longer pays any return, the loss to the investors would be more than three-quarters of a million dollars annually. It is reasonable to suppose that a good proportion of the 4¾ per cent Victories, which have been matured for more than a year, will be presented during the next few months, however, and the proceeds put back to earning interest for the tardy holders.

Secretary Mellon's Point

WHILE the Treasury experts assert that the average American is pretty careful when it comes to his own money, Secretary Mellon drew an impressive symbol of carelessness on the part of the investors in Federal securities when he reported at the end of the fiscal year 1923 that there was $98,172,160 of matured debt on which the interest had ceased. By Oct. 31 this total had been cut down to $41,802,210, and on the first of June it had shrunken to $19,471,790. Substantial refutation of the charge that we are a nation of wasters would come when it is considered that the redemption of the Victories involved four billion dollars.

The bulk of the matured debt represents issues of Victory notes, which have been called but not yet presented to the Treasury for redemption. However, the records of the Department show that ever since 1867 there has been a million dollars or more of matured debt upon which no interest was being paid.

The totals have been more impressive since the government started floating successive issues to pay the cost of our participation in the World War. The figures for the past ten years at the close of the fiscal year are:

1923...	$98,172,160	1918...	$20,242,550
1922...	25,250,880	1917...	14,232,230
1921...	10,939,620	1916...	1,473,100
1920...	6,747,700	1915...	1,507,260
1919...	11,109,370	1914...	1,552,560

To be exact to the penny, 26 cents must be added to the totals. This little item appeared in 1871 and has been in every public debt statement since that year.

May Never Come In

DOUBT obtains as to whether a half million dollars in outstanding securities will ever come in. It is almost certain that some of the old loans and bonds are lost; some have been hidden away by recluses, never to be unearthed; perhaps a few have gone up in smoke, for $893,720 of the debt, which has ceased to draw interest, matured prior to 1891 and at various dates subsequent to 1861. Before the Civil War the government was not a large borrower in the present-day sense, so there is virtually no indebtedness prior to this period to be considered.

But yet every now and then some of the old bonds and loans come to light and are presented to the Treasury. Not long ago fourteen $1,000 bonds, issued 47 years ago, were unearthed when an old farmhouse in New Hampshire was being demolished. Occasionally an old loan, in an excellent state of preservation, is sent in to Washington for payment. However, the redemption of the bonds and notes, issued many years ago, is proceeding at a halting pace. During 1923 the Treasury reduced this old debt by only $6,060, and during the first five months of the present year it had redeemed just $11,140 in these securities. During many months the government is not called upon to pay any of this debt, and it is fairly assumed that the greater part of the $1,282,160 will never be presented for redemption.

The carelessness of government bondholders has been much in evidence during the past two years. The country was shocked to learn in November of 1923 that the holders of more than $100,000,000 worth of gilt-edged Federal securities, due entirely to their own actions, were not collecting interest on them. It was pointed out that Victory notes to the amount of $40,000,000 had not been presented for payment, although interest on them had stopped, while $22,000,000 of matured War Savings certificates remained uncashed. Moreover $43,000,000 worth of temporary bonds, bearing only four coupons, that were issued until the permanent Liberty bonds could be engraved, had not been offered for the exchange. Three years' interest payable on the bonds remained unclaimed.

$15,000 Daily Loss

THE Treasury, at one time, gave the country a jolt by estimating that the holders of the 4¾ per cent Victories, in failing to present their notes, were losing at the rate of $10,000 a day. The loss has now mounted to more than $15,000 a day—if only a 4 per cent return on the money now idle is allowed. The $14,841,800 now idle—for there remained outstanding at the end of May $5,219,300 in the Victory notes called for redemption on Dec. 15, 1922, and $9,522,550 in the Victories called on May 15, 1923—would yield $593,672 annually at 4 per cent.

Strangely enough for a creditor, the Treasury does not want the profit accruing from the carelessness of the public. It has broadcasted warnings to the wasters from time to time, seeking to draw their attention to the loss that they are sustaining. It announced that the notes might be presented to any Federal Reserve bank or branch bank as well as to the Treasury, and informed the holders that banks and trust companies generally would handle the transactions for their customers. The appeal brought millions of dollars' worth of the Victories in for redemption, but it has thus far failed to draw in all of the notes.

More than seven billion dollars in public debt will mature before the end of 1928, and the holders of these government securities will have to present them for payment. The high point will be reached during 1928, when more than three billion dollars in the Third Liberty Loan bonds matures.

There will be fourteen maturity dates in the meantime when the government will call in Treasury notes and savings certificates.

Unprofitable Accounts—How to Turn Them Into Earners

By DONALD A. MULLEN

The Banker's Side of the Small Account. The Depositor's Viewpoint. Every Check Paid by a Bank Involves Seven Distinct Risks. Some Methods by Which Checking Accounts, Now a Bank Drain, Can Bring In Additional Revenue

WHY should not a man be expected to pay for bank service in the same way that he pays for any other valuable service? Is a bank justified in incurring a large expense merely to hold the good will of the small depositor on the chance that he may become a big one?

These two questions, as well as that of banks making a service charge where the daily balance of customers falls below a certain minimum, are under constant discussion by bankers.

Let us for a moment consider both sides of the questions—that of the bank and that of the depositor.

The banks of the country render to the public many services for which they receive no compensation. For instance, the checking privilege which permits the customer to draw checks on stationery gratuitously provided, virtually keeping the books of the depositor and rendering periodic statements with all cost and risk attending.

First let us inquire what the contract of deposit includes. Upon opening an account, the bank agrees with the depositor to furnish the necessary stationery, ever increasing in cost, the labor necessary to handle the account and to pay checks as presented only when properly signed. In turn it assumes the risk of forgery and alteration. Where stop payments are lodged against the accounts, the bank assumes the risk of paying over the stop payment notice with the attendant risks. Every check paid by a bank involves seven distinct risks:

A risk as to the date;
Risk as to the signature;
Risk as to the alteration;
Risk as to the filing;
Risk as to the stop payment:
Risk as to the sufficiency of balance;
Risk as to the uncollected funds.

The Only Compensation

THE only compensation for assuming these risks is the use of the funds for its own account. Every check handled by a bank involves a certain amount of cost, and it is not impossible to get a fairly accurate cost of handling a single check. We can also ascertain with reasonable exactness the profit or loss on each account. This is being done in our larger banks where analysis departments are maintained for this particular purpose. In our smaller banks the cost of such a department would be out of the question, but there is nothing to prohibit the smaller bank from using a short method of analysis which will reveal the unprofitableness of many small accounts.

For example: take an institution having 1000 checking accounts with an average balance of $44.50 making $44,500 as the sum of these balances; deducting your 10 per cent reserve will leave a net of approximately $40,000. Assuming that this amount is loaned at 6 per cent the income will be $2,400 a year. To operate this number of accounts will require at least the time of two clerks, whose combined salaries would be at least $2,400, the amount of our income. Assuming that only one check per account per week is drawn, we have 50,000 checks a year going through these accounts, making a stationery cost of about $150, or a total cost so far of $2,550, thereby causing a direct loss, which is only a small part of the loss taken by the bank in this particular case.

If we were to include the depreciation on the bookkeeping machines, cost of statements, other stationery, incidental expenses and overhead, which is quite a factor, the loss would be considerably more than the $150 shown above.

In this particular bank it would be an easy matter to eliminate such a loss by increasing the income at least $500 per month by assesssing these accounts 50 cents each, making an additional income of $6,000 over and above the $2,400 earned from lending the $40,000 mentioned above at the rate of 6 per cent, making a total credit of $8,400. The profit realizable from this process would be $5,850 per year, and could be applied to the overhead and other expenses, thereby showing that this bank would break about even if all expenses were taken into consideration.

Would it not be a good thing to make this simple analysis regardless of whether or not a service charge is made, in order to satisfy the bank as to the amount of business handled at a loss?

From the Depositor's Side

NOW let us look at this question from the depositor's viewpoint. He may well argue that he gives the bank all his business and keeps as large a balance as possible. He looks upon the bank as a public institution and he honors it with his patronage. He helps it by his friendship. He gives it all he has to give of money and support. Moreover, he expects to give it more when he becomes more prosperous. The problem, then, resolves itself into what attitude to take in order to build goodwill for the future, render such services as the public naturally expects and still make a profit on the account. Therefore, four processes are possible:

1—To eliminate all so-called unprofitable accounts.
2—Encourage building up all unprofitable accounts for the future business resulting therefrom.
3—Tolerate the accommodation accounts as a necessity of the business, under the same theory that the grocer carries sugar, on which he makes no profit, hoping to cover the loss in the general sales.
4—Penalize the unprofitable account, which will either drive it out of the bank, produce a profit or build it up into a profitable account.

Many banks throughout the country have wrestled with this problem and many have solved it—each in its own way. I believe a few illustrative experiences will be helpful at this time.

Last year, F. H. Poole, vice-president of the First National Bank of Fort Wayne, Ind., wrote to a number of banks and trust companies in Indiana, Ohio and Michigan in an endeavor to ascertain the minimum initial deposit required, and their views regarding a monthly service charge. According to the consensus of opinion expressed, "the small checking account must go," or it must bear the burden of its own cost through a service charge if it falls below a certain minimum; that no checking account should be opened for less than a minimum deposit ranging from $50 to $100 and that a service charge of 50 cents per month should be made upon average balances that fall below a fixed sum, usually $50.

If Courage Is Lacking

FOR those who lack the moral courage to put the minimum initial deposit and the monthly service plan into effect or who doubt the advisability of so acting, the following expression by the vice-president of a bank at Elkhart, Indiana, should prove interesting:

"For about two years we have made it a practice to charge 50 cents on all checking

accounts which drop under $50 during the thirty day period expiring on the 20th. Ours is the only bank in the city that makes a charge on small accounts, and if we had it to do over again, I feel confident that we should make the charge $1 on any account which touched under $100, the reason being that our analyses disclose very clearly that any account that does not average $200 is carried at a fixed loss, viewing it from the present administrative and clerical cost. By this method we have eliminated about 1000 unprofitable checking accounts without any appreciable loss in our volume of business.

"Figures furnish the best answer to any perplexing problem, so I am sure you will be interested to learn that in our case, out of 1900 checking accounts, having on deposit a total of $1,125,000, 400 of them carried an average balance of $22, and another 300 an average balance of $75. These 700 accounts represented approximately 40 per cent of our total number of accounts, yet represented only about 2½ per cent of our total volume of business. The 400 accounts which carried a $22 balance represented only 5/6 of 1 per cent of our total volume of business. Hence our reason for having a higher service charge under consideration."

On January 1, 1919, the Richmond, Va., banks notified their depositors through newspaper advertising that hereafter a charge of 50 cents a month would be made on accounts showing a balance of less than $50 and against which as many as five checks were drawn during the month. In making this announcement, Oliver J. Sands, then president of the Richmond Clearing House Association, stated that one bank recently found, when making an analysis, that 2272 accounts carried on its books represented a total balance of only $47,037. This was an average of only $22.70 for each account.

"This business represented a very heavy loss," said Mr. Sands. "Hundreds of checks were paid daily on the accounts, deposits were received, and for all the booking risks and responsibilities entailed by the business, there was no compensation whatever to the bank.

"Richmond banks have had under consideration for many months the question of making a small charge to their depositors where balances were small and where accounts showed an actual loss to the bank. The banks here consulted the experience of banks in many other cities and found that such charges were becoming quite general, and that many cities had rules which required much larger payments than we thought necessary or advisable here.

"We found that it had been the experience of other cities that small customers were pleased with the action of the banks for the reason that those who could not increase their balance to an amount sufficient to overcome the loss to the banks were much better satisfied to make a small monthly payment for a service which they felt they had previously received gratuitously."

Each Check Costs 3½ Cents

IN Binghamton, N. Y., a service charge has been made on accounts falling below $200 on any day. Each check paid in Binghamton, they estimate, costs a bank 3½ cents. The rule is as follows: "When the minimum balance on any day of the month is less than $50, a charge of 50 cents will be made for every 15 checks or fractional part thereof. When the minimum balance on any day of the month is not less than $50 seven checks a month may be drawn free, and a charge of 50 cents will be made for every 15 checks drawn, or fractional part thereof in excess of seven checks. When the minimum balance on any day of the month is not less than $100 fifteen checks a month may be drawn free, and a charge of 50 cents will be made for every fifteen checks drawn, or fractional part thereof in excess of fifteen cents. No charge will be made against an account when the minimum balance any day of the month is not less than $200. No charge will be made against an account when checks are not drawn against it during the month."

In a bank in Des Moines, Iowa, it was found that 700 out of 4,200 accounts averaged between $50 and $100 and 1,400 averaged less than $50. There was an average of 103 checks a year drawn against each ot the 700 accounts and an average of 58 checks a year against the 1,400 accounts. An analysis made several years ago by this bank showed it cost them $7.49 per year to carry an account. The bank therefore imposed a monthly service charge of 50 cents. In summing up their experiences, a vice-president of the bank said:

Real Objectors Few

"THE real objectors were very few indeed. It was all new to the average bank customer. He had no idea of the expense in handling a checking account, but he could not be blamed for that, as the banker had never told him; nor had he any way of knowing the cost of both his check and pass book; nor did he know the cost of the ledger sheet, statement blank, deposit slips, signature cards, or the cost of computing average balances. He was equally uninformed as to the time and trouble of high-salaried clerks necessary to receive his deposits, pay his checks, examine signatures, look up his balances, besides making entries on his ledger and statement sheets, proving same, cancelling his vouchers, sorting and filing them with his statement at the end of the month, delivering them to him and taking his receipt therefor, and several other forms of service that cost the banks money. This clearly demonstrates that the average bank patron is willing to meet such a service charge."

In Columbus, Ohio, a charge of 50 cents per month was made on balances of less than $50. One bank in particular had 2800 accounts with aggregate balances of $33,000 or about $12 per account. This bank says: "When we first imposed the penalty we had 2,800 of these accounts. Last month, that is, in April, 1919, we assessed only 44 accounts. In many cases the depositors have withdrawn their accounts rather than pay the 50 cent charge and we are glad to get rid of them. In other cases we have induced the small checking depositors to increase their balances or transfer them to a savings account." In Columbus the problem has been squarely met through the united action of the banks, all members of the clearing house. The depositor whose balances fall short and then refuses to pay the penalty can get no satisfaction in any other bank of the city, once he withdraws his account. The rule there is: "Keep your balance up or pay the service charge." The result is, Columbus banks have found that much of the annoyance following the assessment of the charge has been eliminated.

In Los Angeles the same condition prevails. Mr. Hardacre, vice-president of the Security Trust and Savings Bank of that city, some time ago said: "This bank found that it had handled 11,500 accounts out of 25,000 with balances less than $100, while 8000 were under $50. Other banks found similar conditions to exist. The Los Angeles Clearing House adopted the following rule: 'A charge of 50 cents will be made upon the last business day of each calendar month, or as soon thereafter as charges can be entered against any checking account which during the month has shown an average daily credit balance of less than $100, and against which account checks have been paid during the month.'" Full allowance was made in further provisions of the rule, for the exercise of discretion by the officers of the banks in its enforcement.

$1.00 Per Month Per Account

ON June 1, 1924, the Boston Clearing House Association passed a rule whereby the service charge on checking accounts whose daily average balance for the month is less than $300 will be $1.00 per month. Moreover, no interest will be paid on such accounts unless their daily average is more than $500 and then only on the amount by which they exceed that sum. This means that if a balance is $550 the owner will receive interest on but $50. Only those accounts whose average balance is $10,000 or over will receive interest on the whole amount. The balance is the average of the balances of the banking days of the month and is not required to be maintained on every day of the period. This would be unjust to the good customer whose needs require withdrawal of practically the whole of his account but who promptly replenishes it. Working alone, it would have been impossible for a single bank of Boston to adopt and collect a service charge. But strengthened by united action of the clearing house members, and stiffened by the possibility of a fine, there is little doubt that it will work out as successfully in Boston as it has in other sections of the country.

John P. Duke, bank supervisor, state of Washington, in a recent article said:

"The remarkable feature which I found in the institution which I managed—when I compiled figures for the first time in 1918, and had before me the results of each year back to 1909—was the decrease in the ratio of gross earnings to controlled funds (i.e., capital, surplus, profits, deposits and borrowed money) during the 10-year period. This ratio shrank from $11 per $100 controlled funds to approximately $6.75 per $100 controlled funds, while during the same period the cost ratio had been reduced but little. This was accounted for by a greater volume of deposits during 1918. I visualized the downward line of gross earnings, as compared with the almost stationary line of costs, and it seemed that some time in the future the terminals would meet, and

(*Continued on page* 55)

The Power of Re-Discount Rates

By HENRY TEMPLETON

Chief Influence Exercised by Re-Discount Rates Is on Temporary Changes Rather Than on Long-time Level of Interest Rates. Senator Shipstead's Views Incorrect as to Their Effect. Can Discount Rate on a Half Billion Fix Level for 70 Billion Dollars?

HENRIK SHIPSTEAD of Minnesota succeeded Tom Heflin of Alabama as the outstanding Senatorial critic of the Federal Reserve Board during the past session of Congress. He assailed the Treasury for setting the pace of general interest charges by offering "excessive rates" on the various issues of Federal securities which were floated, and took exception to the explanation made by the Secretary of the Treasury that the Government merely paid the market rate rather than fixed them. Senator Shipstead insisted that the general level of interest rates might be shifted by the manipulation of the Federal Reserve Board's re-discount rates, and asked why the Treasury did not advertise its offerings in the competitive market and accept the lowest bids.

While the strictures that Senator Shipstead delivered were not marked with the intensity that characterized the periodic Philippics that Senator Heflin directed against the "drastic deflation policy" of the Federal Reserve Board and the administration of the Board under Governor W. P. G. Harding, they had more timeliness in that they came when there were successive cuts in the re-discount rates and when the interest rates of Government borrowing had dropped to the lowest level since pre-war days.

The Last Chapter

IN what may be the last chapter of the controversy between the Minnesota Senator and the Secretary of the Treasury, Senator Shipstead contended that he had found contradictory statements in the Secretary's letter to the Editor of the AMERICAN BANKERS ASSOCIATION JOURNAL and in the annual report of the Federal Reserve Board, which Mr. Mellon signed as ex-officio head of the reserve system.

An analysis of the two statements, however, discloses that they are not inconsistent. The contradiction grows out of the Senator's own interpretation.

He interprets the statement in the Secretary's letter that "discount rates reflect conditions in the money market rather than cause them" to mean that discount rates have no influence on the money market. On the other hand, the statement in the Federal Reserve Board's report that "Federal Reserve rates are an important and at times a leading influence in money centers," Senator Shipstead interprets to mean that discount rates determine the general level of interest rates and are responsible for general conditions in the money market.

Neither interpretation, of course, is correct. It is true that discount rates reflect conditions in the money market, and it is equally true that discount rates have a stabilizing influence on rates and greatly reduce the fluctuations in rates.

Reason for Change

THE Board does not maintain that in the long run the Federal Reserve System will greatly change the average level of interest rates. In fact, in the sentence in the annual report just preceding the paragraph quoted by the Senator, the Board says: "The reason for variable Federal Reserve discount rates is the necessity of adjusting the rates to these changes in business and credit conditions"; and on the previous page, "The objective in the Federal Reserve discount policy is the constant exercise of a steadying influence on credit conditions."

The Federal Reserve banks have constantly endeavored to adjust discount rates to existing conditions and to disturb the money markets as little as possible.

The lack of elasticity and fluidity in credit prior to the establishment of the Federal Reserve System was reflected in the fluctuations in short-time interest rates. Increased demands of business caused high fluctuations of interest rates on short-time loans and slackening demands caused equally low fluctuations of rates as surplus funds rapidly accumulated. These fluctuations, of course, were not representative of the true earning power of capital generally, and the Federal Reserve System functions as a cushion of credit to reduce such extraordinary fluctuations and to stabilize rates around the average level, which is determined by the supply of and demand for capital, or in other words its earning power.

This is done by creating additional credit at prevailing rates when business expands and by absorbing the surplus supply when business contracts. The chief influence exercised by the discount rate, therefore, is with reference to temporary changes rather than the long-time level of rates.

The Stabilizing Influence

AS stated in the Board's report, when business is undergoing a rapid expansion and is in danger of developing an unhealthy or speculative boom, a restraining influence can be exercised by making additional credit more expensive. On the other hand, business and industry, after a period of reaction, can be encouraged by cheaper credit. The stabilizing influence of the Reserve System on interest rates is shown on Chart I, comparing rates during and following the Civil War with rates during and following the World War. The greater stability of rates following the World War is very apparent.

As to what determines the general level of interest rates, there must be something more fundamental than the arbitrary power of a board or any number of boards. That more fundamental factor is found, as stated above, in the earning power of capital, or the supply of and demand for capital.

Fundamentally interest is the price paid for capital and is determined like the price of any other commodity. Moreover, capital does not consist of bank credit. It is represented by the savings of the people, or the excess of production over consumption. It is sometimes referred to as the accumulated stock of goods, supplies, materials, etc., which is used for further production. It would be difficult with the Senator's theory of rates to account for the comparatively high rates which prevailed for many years after the Civil War and the rates prevailing in the various European countries at present, which are considerably above pre-war levels.

Chart III indicates that in this country commercial paper rates are not as a rule running higher than the average of the 40-year period preceding the war, in spite of the tremendously disturbing influence of the war.

Re-Discount Power

A SENATORIAL critic of the Treasury contends that the Federal Reserve Board's re-discount rates are the chief determining factors in the general level of interest rates.

The loans and discounts of the Reserve banks now aggregate less than a half billion dollars. The loans of the banks of the country to their customers exceed thirty billion dollars and there are about forty billion dollars in bonds outstanding, the rates on practically the whole of which are above the discount rates.

It requires considerable imagination to believe that the re-discount rate on the half billion is the chief governing factor in the level of rates on the whole seventy billion.

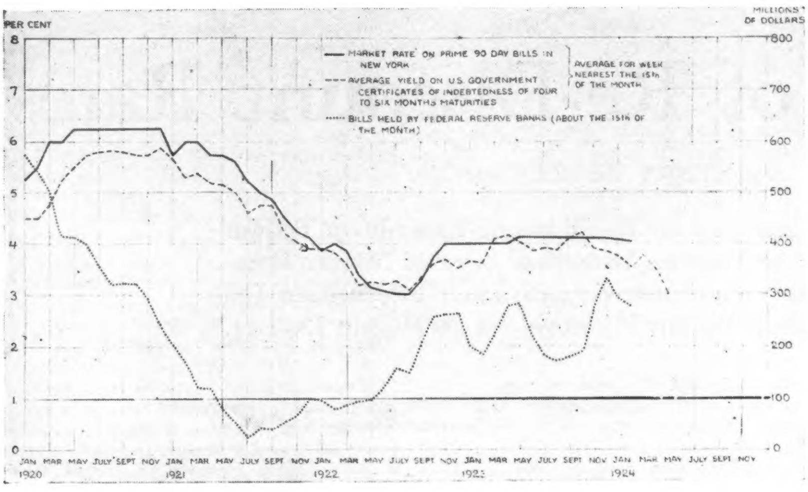

Chart II showing relation of market rate on prime 90-day bills in New York and average yield on government securities of short maturities

WITH more specific reference to the statement that discount rates reflect conditions in the money market, I think it can be shown that every advance in rates has been preceded by a stiffening in market rates, and every reduction has been preceded by a weakening in market rates. The table of interest and re-discount rates shows that the prevailing rate on prime commercial paper rose from 4 per cent in July, 1922, to 4.75 to 5 per cent in November, 1922, although the discount rate had been reduced from 4.50 to 4 per cent in June of that year. The commercial paper rate eased off somewhat in January, 1923, but in the second week in February, before any change in the discount rate occurred, it stiffened again to 4.75. During the third week the discount rate was increased to 4.50 per cent, after which the commercial paper rate rose to 5 per cent and fluctuated around 5 to 5.25 per cent until December, 1923, when it began to weaken and declined to 4.50 before the discount rate was reduced.

After the reduction of the discount rate on May 1, 1924, the commercial paper rate declined further to 4.25 per cent. The same general trend is shown in rates on acceptances and even in call money rates. These rates would undoubtedly have fluctuated much more widely in both the upward and the downward trend but for the stabilizing influence of the discount rate. Chart III, giving market rates on prime 90-day bills in New York and the average yield on United States Government certificates of indebtedness, shows a marked rise in the rates on these two types of paper from July, 1922, to February, 1923, when the discount rate was raised to 4½ per cent, but very little advance after that date. Moreover, there was a marked decline in the yield on certificates of indebtedness from October, 1923, to May, 1924, when the discount rate was reduced.

Can a Half Billion Control 70 Billions?

THE loans and discounts of the Federal Reserve banks have continued to decline during recent months and now aggregate less than a half billion dollars. The loans of the banks of the country to their customers, on the other hand, are over $30,000,000,000. In addition there are about $40,000,000,000 of bonds outstanding. With the exception of the better grade tax-exempt bonds which have an artificial value, the rates on practically the whole of this $70,000,000,000 are above the discount rates. It requires considerable imagination to believe that the discount rate on the less than one-half billion is the chief determining factor in the general level of rates on the $70,000,000,000.

Senator Shipstead, it will be recalled, charged that an "unnecessary burden of $5,000,000,000 annually is the result of the extraordinarily high interest rate paid by the Government, by commerce, private and public corporations and private individuals" because the Treasury had set the pace on the borrowing and had thus fixed the rate, which all others would have to pay. Senator Shipstead argued that the first re-discount rate cut by the New York bank had sent money down, caused Liberty bonds to rise and had sent money back into the country to finance the business of the interior.

With reference to the Senator's statement that an advance in discount rates causes Liberty bond prices to decline, and a decline in discount rates causes Liberty bond prices to advance, Chart III, showing the price of 4¼ per cent Liberty bonds since August, 1922, is illuminating.

Although the discount rate in New York had been reduced from 4½ to 4 per cent in June, 1922, Liberty bond prices began to decline in September of that year and stood at about 98.6 in February, 1923, when the discount rate was raised to 4½ per cent. In November, 1923, the price, which stood then at about 98.3, began to rise rapidly, and by May 1, 1924, when the discount rate was again reduced, they had reached par.

Since the reduction in the discount rate, they have continued to advance, but it can hardly be said that the cause of the increase since November, 1923, was the reduction of the discount rate May 1, 1924. The fact is that they both reflect conditions in the market and have a common cause.

THE Treasury, it is well understood, holds that it cannot embrace the plan of selling its securities after advertising them in the competitive market and accepting the most favorable bid. Senator Shipstead insisted that the Government buys money in wholesale quantities, but pays retail prices for it. If the Treasury were to sell at wholesale, it is fair to assume that the purchasers would make a profit on the bonds when they were distributed to the ultimate holders. The Government thus would set up a "middleman" and doubtless bring upon its head the charge that it had devised a system to give more profits to the intermediary banks.

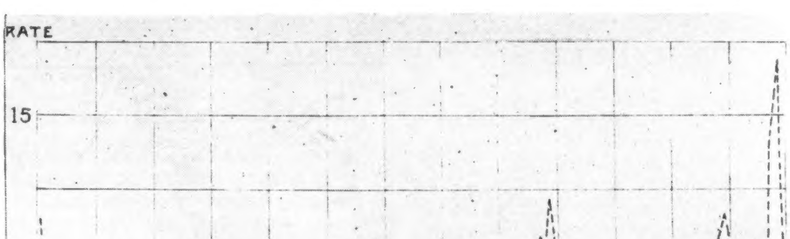

Chart I—Average monthly interest rates on 60-90 day commercial paper during the Civil War and World War periods

Interest and Re-Discount Rates

Date		Prime commercial paper. Prevailing rate	Prime 90-day bills. Average	Call Money Average	Discount rate, Fed. Res. Bank of New York
1922					
July	1,	4.00		4.742	4.00
	8,			4.580	
	15,	4.00	3.000	3.538	
	22,	4.00		3.780	
	29,			3.688	
August	5,	4.00		3.982	
	12,	4.00		4.064	
	19.	4.00	3.000	3.280	
	26,	4.00—4.50		3.788	
September	2,	4.00—4.50		4.304	
	9,	4.25		4.135	
	16,	4.25	3.250	4.366	
	23,	4.25—4.50		4.834	
	30,	4.50		4.664	
October	7,	4.50		4.492	
	14,	4.50		5.153	
	21,	4.75	3.690	4.914	
	28,	4.50—4.75		4.776	
November	4,	4.75		5.114	
	11,	4.75		5.488	
	18,	4.75—5.00	4.000	4.730	
	25,	4.75—5.00		4.890	
December	2,	4.75—5.00		4.690	
	9,	4.75		5.050	
	16,	4.75	4.000	4.186	
	23,	4.75		4.590	
	30,	4.50		5.378	
1923					
January	6,	4.25—4.50		4.415	
	13,	4.25—4.50		4.270	
	20,	4.25—4.50	3.980	3.866	
	27,	4.25—4.50		4.486	
February	3,	4.50		4.740	
	10,	4.75		4.448	
	17,	4.75	4.000	5.208	4.50
	24,	5.00		5.223	
March	3,	5.00		5.000	
	10,	5.00		4.970	
	17,	5.00	4.000	5.064	
	24,	5.00		5.378	
	31,	5.00—5.25		5.768	
April	7,	5.00—5.25		4.884	
	14,	5 00—5.25		4.910	
	21,	5.00—5.25	4.09	5.028	
	28,	5.00		4.962	
May	5,	5.00—5.25		5.050	
	12,	5.00		4.622	
	19,	5 00	4.125	4.390	
	26,	5.00	4.125	4.746	
June	2,	5.00	4.125	4.910	
	9,	5.00	4.125	4.740	
	16,	5.00	4.125	4.650	
	23,	5.00	4.125	5.056	
	30,	5.00	4.125	5.778	
July	7,	5.00	4.125	5.053	
	14,	5.00	4.125	5.202	
	21	5.00	4.125	4.912	
	28,	5.00	4.125	4.838	
August	4,	5.00	4.125	5.355	
	11,	5.25	4.125	4 683	
	18,	5.25	4.125	4.740	
	25,	5.25	4.125	4.980	
September	1,	5.25—5.50	4.125	5 208	
	8,	5.50	4.125	4.980	
	15,	5.25—5.50	4.125	5.144	
	22,	5.25—5.50	4.125	4.272	
	29,	5.25—5.50	4.125	5.298	
October	6,	5.25—5.50	4.125	4.880	
	13,	5.25—5.50	4.125	4.880	
	20,		4.125	4.466	
	27,	5.00—5.25	4.125	4.498	
November	3,	5.00	4.125	4.746	
	10,	5.00	4.125	4.890	
	17,	5.00	4.125	4.734	
	24,	5.00	4.125	4.680	
December	1,	4.75—5.00	4.125	4.810	
	8,	4.75—5.00	4.125	4.602	
	15,	4.75—5.00	4.125	4.812	
	22,	4.75—5.00	4.125	4.668	
	29,	4.75—5.00	4.125	5.567	
1924					
January	5,	4.75	4.125	5.178	
	12,	4.75	4.125	4.258	
	19,	4.75	4.075	4.192	
	26,	4.75	4.075	4.000	
February	2,	4.75	4.000	4.426	
	9,	4.75	4.000	4.368	
	16,	4.75	4.063	4.558	
	23,	4.75	4 125	4.143	
March	1,	4.75	4.125	4.416	
	8,	4.75	4.125	4.322	
	15,	4.75	4.125	4.190	
	22,	4.50	3.950	3.192	
	29,	4.50—4.75	3.963	4.540	
April	5,	4.50	4.000	4.566	
	12,	4.50	4.000	4.578	
	19,	4.50	4.000	4.190	
	26,	4.50	3.925	3.842	
May	3,	4.25—4.50	3.650	3.896	4.00
	10,	4.25—4.50	3.500	3.500	
	17,	4.25	3.438	3.342	

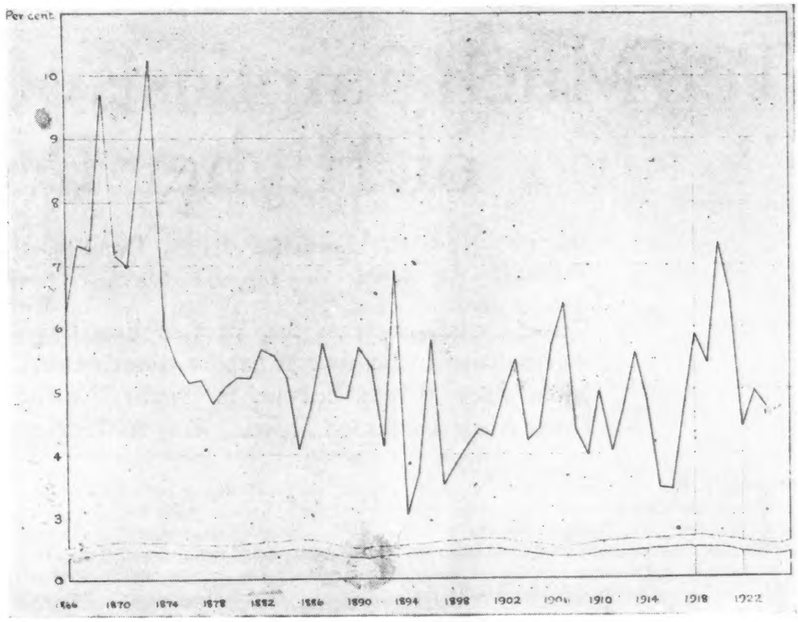

Chart III showing annual average interest rates on 60-90 day prime commercial paper from 1866 to 1924

His Community Needs It

"I DO not see how a banker can say, 'I do not want to belong to the Federal Reserve System.' Maybe he doesn't, but God knows his community needs it. If he is going to perform efficiently as the proper custodian of the financial resources of that community, then certainly he owes it to that community to bring to it everything the government has to offer. One of the things I have heard since I have been in Washington, from some of my good banker friends throughout this section of the country is, 'Oh, yes, the Federal Reserve System is run for and by the New York bankers, entirely for their interests.' That is an erroneous statement. It is quite true that the New York bankers use the Federal Reserve System and use it very properly. They make money by using it properly, and there is not a banker that could not make money by judiciously using the Federal Reserve System for the benefit of his community. He might not make it as promptly as he would taking exchange off a check or something of that kind, but eventually he will make the money just as sure as death.

"I was talking with a banker not long ago who is the president of one of our southern banks that has resources right around $10,000,000. He was criticizing some things that went on in the Federal Reserve System. I sat down with him and took his statement as of the close of business that day; I went over it item by item and showed him where he was making a mistake in not having studied the Federal Reserve System. I showed him where he could increase the earnings of his bank over $40,000 a year by using the Federal Reserve System in the way the law provides it should be and can be used, but he had not taken the trouble to study it. He was too busy looking right through those glasses with a dollar mark on one lens and an 'I' on the other. He had overlooked his community. — George R. James, member, Federal Reserve Board.

A Draft on Humor

A number of years ago a county judge in Texas failed of reelection, so he sought and obtained the position as cashier in the local bank.

One day a man came in to have a check cashed, and very naturally the cashier asked him to be identified. The stranger went through the usual formula of letters and documents carried in his pockets, and laundry mark on his shirt, and other things to establish his identity. None of which, however, was satisfactory to the cashier. Finally the stranger lost his temper and said, with some heat, "Look-a-here, I know you! You used to be judge in this county, and you hung my brother on a great deal less evidence than I have produced here to establish my identity!"

"Well," said the cashier, "that may be, but one can't be too careful in money matters." —Charles A. Smith, manager, Bank of Italy, Livermore, Cal.

Old Bob Johnson, colored, was porter in a bank. One morning the manager greeted him with, "Hello, Bob, how is everything this morning?"

Bob replied, "Well, I'll tell you, Boss. Them folks yistady tracked in so much mud I never done got balanced until half past six."—Charles A. Smith.

Too Much Emphasis on the Benefits of Higher Prices

By MELVIN A. TRAYLOR
President First Trust & Savings Bank, Chicago, Ill.

Change of Tactics on the Part of Legislative Scheme to Help Agriculture Indicative of Errors Relative to Credit. What We Must Face When Europe Is Again Producing. High Labor Costs Must Be Scaled Down. Key to the Agricultural Problem.

THE real difficulty of those engaged in agriculture is not, primarily, one of the price received for the product; more particularly, perhaps, is their trouble due to unscientific and costly methods of production, and directly to the price they must pay for the things they must purchase from other producers.

The first of these difficulties the farmer himself can very largely overcome if he will give more attention to common sense, businesslike methods of conducting his operations and less to the political claptrap that is offered him in the shape of specific legislative nostrums, which may by temporarily suspending the laws of the universe ease his condition, but which will in the end, like the victim of any other narcotic, leave him worse off than in the beginning.

This is amply proved by what has occurred since the deflation began in 1920. At that time a hue and cry went up for larger credit facilities for agriculture, and the statement was freely made that it was the withdrawing of credit from agriculture that precipitated the difficulty. In response to these demands various credit schemes were brought into existence, including private funds subscribed for special relief to distressed live stock producers, the revival of the War Finance Corporation, and later the creation of the intermediate credit banks. These various agencies have advanced tremendous sums to agriculture and to financial institutions in agricultural communities, and yet the magic of increased prices and permanent prosperity for the industry has not materialized.

Has Changed Front

THE result of all these operations has been to convince those who have given any real thought to the situation that the actual difficulty is not at all one of insufficient credit, but quite the contrary; much of the trouble would never have been encountered except for too much and too easy credit. Realizing this fact, there has been in recent months apparently an entire shift of front by those who would legislate the salvation of the industry. Present efforts are directed toward various false schemes, which range all the way from outright purchase and destruction of large quantities of staple crops to the unmitigated price-fixing proposals for arbitrarily raising the price of all farm products.

Either our whole viewpoint of agriculture, both state and federal, for the last half century has been wrong or the present proposals are wholly unsound, because the attempt of the government, both state and national, has been to secure larger yields at cheaper prices; while the inevitable result of the schemes now proposed, if successful, would be to stimulate further wasteful and unscientific production under the protection of subsidies from the public treasury, which would in turn necessitate heavier burdens through increased cost of living and high taxation. Obviously it is unthinkable that a labor which is made profitable by a fixed price that yields a profit over cost, however extravagant the cost may be, will in the end tend to more scientific methods, to cost reduction and above all to diversification and reduced production of those particular crops wherein there is now most marked overproduction.

Higher Prices Not Necessary for Prosperity

IN the normal course of events materially higher prices of farm products are not expected in the near future, nor do greatly higher prices appear to be necessary to agricultural prosperity, nor in the long run desirable or essential to national prosperity; though it is highly desirable, absolutely essential and inevitable that there should be and will be a speedy adjustment of the purchasing power of the farmer's product to the level of the buying power of the products of other industries. This adjustment should embrace a complete solution of our agricultural difficulties, and be all that the most vociferous so-called friends of agriculture are demanding and a great deal more than their proposed schemes would accomplish.

Why is it that there has been a very complete liquidation of agricultural prices from the high peak of the prosperous period, and as yet so little liquidation of all other commodities, save credit, from the inflated period?

Waiving the innumerable minor factors, it seems that there are two or three outstanding reasons. During the period of war activity, and particularly from the time of the participation of the United States in the conflict until well after the armistice, two great fundamental industries had been practically without funds to carry on their operations. I refer particularly to the railroads and to the building industry. It was not until after the slow-up of 1920-21, when, because of forced liquidation of inventories and bank credits, credit became available for these industries, that they entered the market for very large purchases. It is stated that in 1922-23 the railroads made larger purchases than in the previous five-year period, and that building permits—exclusive of industrial plants—likewise were larger in these two years than in the previous five years. With the activity of these industries, with their call upon the country for every article which goes into such construction programs came a call for labor, which made it possible for labor to demand and receive wages approximately on a parity with war-time figures, and consequently enabled manufacturers and producers of products of every kind thus demanded to exact prices approximating also the war-time level. This industrial prosperity was further stimulated by the enormous issues of tax-exempt securities for public improvements, which are sometimes included in the category of the building or construction industry. While this was going on, the farmer lost largely of his foreign war-time market and received little or no increased domestic demand, notwithstanding that his factory, largely expanded and developed to meet war-time needs, was still producing in excess of normal requirements. The inevitable result has been only a slight recovery in prices of farm products and practically no decrease in the prices of manufactured products.

When Competition Comes

THOUGH in no sense pessimistic, no confidences are violated when it is stated that neither the railroads nor the building industry can with safety very much longer continue at the rate they have been going for the past two years. In fact, it is no secret that these industries, particularly the railroads, are now very definitely out of the market for large commitments, and that the building industry is slowing up.

The American manufacturer, due to the al-

(*Continued on page* 38)

The Real Dividends from a Loan

By WALTER W. HEAD
President American Bankers Association

Not Alone in the Collection of Principal and Interest but in the Impetus the Loan Gives to Productive Achievement. Success in Banking Depends Upon Just How Far the Banker Looks Below the Surface in All Affairs in Which He Is Concerned.

AS bankers, we take pride in the statement of our resources, in the size of our dividend disbursements. As bankers, we scan the financial statements of prospective borrowers in order to determine whether or not the security warrants the loan which is requested. But these statements—whether they are the statements by which we gauge another's credit rating or the statements by which we presume to measure our own progress—are measures only, are merely yard-sticks. The borrower's statement may be ever so favorable and yet the conditions confronting his industry may forecast certain catastrophe; the bank statement may show adequate reserves and ample undivided profits, yet a business depression may bring insolvency. The real story lies below the surface of these statements. Our success as bankers depends upon just how far we look below the surface—in our individual affairs and in the affairs in which we are all concerned.

Permit me to cite two examples. One concerns a bank, the other concerns an industry.

Bankers Become Factory Operators

THE reaction of 1920 threw more than one industrial concern into bankruptcy. I have in mind a certain factory, erected in the heyday of post-war prosperity, built largely from the proceeds of stock sold to a large number of people who had no direct interest in the business or its management. It was a typical case of stock promotion, without aggravated fraud. When the crash came the corporation was placed in a receiver's hands. Certain banks were its creditors to the tune of many thousands of dollars. An estimate of the assets and liabilities gave little consolation. The first thought of the banks concerned was to accept the loss, make the best settlement possible at the moment and free themselves from a situation which seemed hopelessly involved. But other advice prevailed. Certain of the banks reorganized the company and renewed operations. For months—finally for three years—officers of the interested banks gave time and thought to the problems of this concern. Eventually, very recently, they disposed of their interest in the corporation at a figure which enabled them to recover the greater part of their apparent loss.

That is what resulted from going beyond the record of the bookkeeper. It required an investigation, not merely of this one corporation, but of the entire industry, the territory, the possibility of future development. The bankers who reorganized the company had to become, for the time, factory operators as well as bankers. But the result was a signal victory for their foresight, determination and courage.

Until recently the United States exported bacon to England, bacon worth millions of dollars a year. Not long ago the exports of bacon declined. Simultaneously the export of bacon from Denmark to England increased. If the practice of some exporters had been followed by the packers of the United States, the loss would have been charged up to British retaliation against the American tariff, to a sympathetic reaction from the investment of British capital in Denmark, to British anger because British crews were temporarily denied their ration of rum while in American ports—or to some other alibi easily produced.

Went Below the Surface

NOT so with the packers. They reached below the surface. They found that London bacon eaters prefer lean bacon. They found that Denmark was producing a hog which yielded lean bacon, whereas the American corn-fed hog abounded in fat. The result of this investigation has been a series of conferences between American hog-raisers and representatives of the packers, for the purpose of attempting to breed a new variety of hog—a hog more staisfactory to the breakfast palate of our English cousin.

Investigation, determination, a willingness to get down to fundamentals in order to reach future rewards, are solving this problem.

The net result of these observations—somewhat fleeting but nevertheless typical—is that bankers of the Twentieth Century cannot merely be bookkeepers, tellers, cashiers, lenders of money, or even a combination of all of these raised to the *n*th degree. To be bankers today, bankers must be more than bankers. They must be economists. They must be sociologists. They must be business men, versed in industry and in commerce. They must be psychologists, knowing human nature. They must be statesmen, understanding politics, with a knowledge of international affairs.

The banker's interest in his debtor-patron does not end with an examination of his statement and approval of the loan. It begins then. The banker's interest in his debtor is not merely the collection of the debt when due. It is to his interest that the borrower shall make his business successful in the largest possible way. He may collect his debt by selling the assets at auction. But if that is all he accomplishes, he has failed. The banker achieves success only when the money he loans enables an industry or a business to develop and grow, to become an increasing factor in the community, to contribute by its prosperity to the greater prosperity of those dependent upon it, and, through them, to the greater prosperity oi the entire territory in which it is located. The real dividends from a bank loan are not in the collection of principal and interest but in the impetus which is given to productive achievement, the consequent gain in the aggregate of wealth and happiness. The important return is not the immediate but the eventual return, not the direct but the indirect return.

Interest Begins

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J. J. Scott, president, Virginia Bankers Association

W. D. Haas, president, Louisiana Bankers Association

S. A. Hubbard, president, North Carolina Bankers Association

What the Banker Must Do

TO achieve this, the banker must read men as well as statements of financial worth. He must know industry as well as the affairs of a single corporation. He must know world markets as well as local markets. The banker who loaned heavily upon grain and live stock just prior to the slump of 1921 not only lost money for himself but lost the opportunity to advance his own prosperity by advancing that of his community. Intelligent foresight by bankers in 1918 and 1919 might conceivably have prevented many of the more serious consequences of the agricultural depression of 1921.

It is because of adherence to this principle of looking below the surface, because of belief that bankers must be men of general affairs, that The American Bankers Association is sponsoring a widespread campaign of cooperation with the farmer. It is because of belief in these same principles that the President of The American Bankers Association said recently that bankers must concern themselves with the problems of the railroads, with the problems of the coal industry, with the problems of the oil industry and with the problems of other industries of prime importance—to the end that the bankers' general knowledge of all business may be applied for the benefit of each industry with which his customers are concerned. Every banker would recognize the name of a certain great corporation, manufacturing articles used in every state in the Union and exporting to many foreign countries! This corporation became a bankrupt during the recent depression. After that happened—note that I say, after it happened—the creditor banks made a survey of the entire industry. They found that the export demand had been reduced to almost nothing—because the normal Russian market had been eliminated as a result of soviet control of that nation. They found that the domestic demand was severely curtailed—because of the farmers' predicament. They found the whole industry in a state of overproduction because of an unwarranted belief that days of reckless spending would never end and an apparent belief that iron and steel would wear out in months instead of years. The result of the survey is a decision to restrict production to certain staple lines, the sale of which made the industry a great success in pre-war days.

Make the Survey Before —Not After

THINK what might have been accomplished if the banks had made such a survey before bankruptcy occurred, instead of after. Think what might have been accomplished and what might be accomplished today, if the bankers really knew the basic facts of the industries which they finance. Think of the opportunity presented to the business men of America to solve their own problems—of transportation, of fuel, of marketing—without waiting for action by government, without waiting for a calamitous breakdown. "An ounce of prevention is worth a pound of cure."

As business men we go before Congress—with justification — opposing this bill or favoring that; as business men, we decry the acts of "politicians" who are elected to office or who procure the election of others to office. Yet, as citizens of our country, do we fulfill the obligations incumbent upon us? Do we exercise our right to vote—and when we do, do we always place intelligence, efficiency and patriotism in government ahead of every other consideration?

It is but human nature to repel attack by counter-attack. It is but natural that business men, facing the onslaught against the principles which they believe to be true and fundamental, should meet that attack by a counter-offensive, should cry "bolshevism," should meet extreme with extreme. In the early days in America, heretics were burned at the stake. But that did not put an end to heresy. Intolerance breeds intolerance. Conversion creates faith.

We, as business men, having faith in principle, must believe in its ability to triumph over false standards. We must exercise our power of intellectual and moral leadership to make truth triumphant.

First, we must make sure that our position is right. We cannot form ourselves into selfish cliques, for the advancement of selfish interest, and still maintain our right to criticise those who align themselves in groups, classes or "blocs" for their own selfish purpose. We cannot condemn politicians when we ourselves—even though only by acts of omission—assist in the maintenance of political bossism. We cannot profit by questionable practice in business and expect successfully to oppose graft in government.

Second, we cannot delegate our responsibility in government to someone else. The main-spring of a watch operates through a series of wheels and cogs to move the hands on the dial. City councils, state legislatures, Congress and other agencies carry on the government—but the main-spring of government is the individual citizen. The main-spring may transmit its impulse through elected or appointed officials, but the mechanism will not operate if the main-spring is removed. There is no substitute for individual interest in government and individual responsibility for government.

Dollars Coming Home

THE return flow of United States currency from circulation abroad, which became noticeable in April, assumed larger proportions in May, according to reports from the banks in New York City, which are the largest shippers of currency to foreign countries. The total net receipts in May, amounting to $4,614,000, were the largest for any month in the past year, and compared with net shipments of $5,526,000 in February when the export movement reached its height. This shift in the direction of currency movement reflects principally a falling off in the shipments to central and eastern Europe, and an increase in receipts from England, Germany and Switzerland.

Creating Standards by Advertising

By FRANCIS H. SISSON
Vice-President Guaranty Trust Company, New York

The Standards Fixed in the Printed Word Must Become Those of Distribution and Production. The Handicap of Precedent. Whatever there is of Genuine Use to Human Beings Can With Truth and Dignity Be Advertised and Sold. The Ultimate Goal.

"ADVERTISING as a creator of public standards in business" leads to the consideration of advertising not primarily as a sales aid or business stimulant, but as a moral force, establishing business ideals and ethics, impelling quality as well as quantity production. It brings business out into the open. It invites inspection. It seeks the light and bids its devotees as children of the light to walk in the light. It forces its users to square promise with performance. It gives character and permanence to business and assures the delivery of goods "as advertised," or failure. Every dollar spent for advertising space adds to the necessity for exactness of statement and integrity of product. The standards fixed by the merchant or manufacturer in public statement and printed word must become the standards of distribution and production or the inevitable loss of public confidence and good will spells bankruptcy, moral as well as financial. Good will is the joint product of good goods, good service and good advertising. Protected, it is an invaluable asset, but violated in either of its essential elements a fatal liability. It is business insurance. It assures demand and lower costs. It protects the public and provides the buyer of an advertised trade-marked article with a triple guarantee of quality—from the merchant, the manufacturer and the publisher. It fixes the standard which maker and distributor must meet and provides a definite goal for business achievement.

It also defines the character of service which it offers and compels the servant of the public to keep his pledges, or be discredited. It commits all who use it to keep faith with the public in the sale of commodities or services, of securities or ideas. It is the sign and symbol of fair dealing, of right purpose, of good faith. The mere appearance of a well planned advertising campaign in important mediums today is the assurance of honest goods, honest service and fair prices. It is the promise of continuity and stability and integrity. On any other basis failure would be inevitable.

National Economic Education Imperative

EMERSON once observed that "if a man can write a better book, preach a better sermon or make a better mouse-trap than his neighbor, though he build his house in the woods, the world will make a beaten path to his door." That would unquestionably be true if the author, or the preacher, or the mouse-trap maker could live and wait long enough for the world to discover the virtue of his pocket. But both he and the world would profit the sooner if advertising brought them together. And that is somewhat analogous to the situation which exists today regarding many businesses and the purchasing public throughout the civilized world.

There are thousands of products of unquestioned merit of which the general public knows little or nothing because the manufacturers of such products are content to practice principles of more or less primitive barter, apparently unconscious of the fact that, by educating the general public to an appreciation of the worth of their products, they would not only profit themselves but would perform a distinctly valuable economic service.

Living standards in thousands of households are undoubtedly being raised daily by the picture of appetizing fruits, cereals, or other food products, and by illustrations of house furniture, rugs, musical instruments, radio apparatus, or clever labor-saving devices. Illustrations of beautiful dwellings in real estate advertisements stimulate a better taste in architecture. Tree protection is fostered by the tree doctor's attractive landscapes. Pictures of accidents used by insurance companies teach prudence and care in automobiling or in fire prevention. In fact, the education of the public to higher standards of comfort, cleanliness and sanitation and to better ideals of social conduct, to broader conceptions of living through reading or travel, through the theater or other forms of art is constantly going on by reason of the practically universal distribution of alluring and artistic advertising.

Advertising has long been hampered in its use by precedent, tradition, conventions, and prejudices, which, under analysis and experience, find little to warrant their existence. Gradually the falsity of their claims is being proved. We were told for many years that it was undignified for a bank or fiduciary institution to advertise, and this edict, born of superstition, was accepted without question until finally it was intelligently challenged and it was discovered under analysis that there was no sufficient reason for its support. The inevitable conclusion is that, whatever is of genuine use to human beings, whether it be goods or services, can, with truth and dignity, be advertised and sold, and that it is just as proper to merchandise forms of service as to sell commodities. The next step will be that the use of advertising in merchandising ideas is quite as proper as its use in the sale of goods and services.

Bankers have discovered that they too may serve the public effectively through instructive pictures and text urging thrift, suggesting the care of valuables, advising as to the protection of estates, the interests of widows and children, teaching sound ideas of economics and finance and warning against speculative investment. It is certain that the development of a new relation to the public through advertising of this character has led in the banking business to higher ideals and to far broader conception of its opportunity for useful service to the community. The great American banks in their advertising are doing much to combat economic fallacies and to instruct the public in the field of sound finance.

Living Up to Advertising Standards

THIS positive reflex action of good advertising upon the advertiser himself which has taken place in banking is also very evident in many other industries and activities. An excellent example of this reaction occurred not long ago in one of the great railroad systems, where the traffic manager protested to the president of the road that it was impossible for his department to live up to the promises made to the public in the road's advertisements and that, in consequence, the advertisements would have to be changed. The president replied emphatically that the advertising would not be altered but that the traffic department would have to readjust its ideas of service and live up to the standards implied in the advertisements.

It is not too much to say that advertisers have generally come to realize the obligations which are carried by their statements to the public in regard to services or products, and this constitutes a continuing stimulus to the maintenance of quality in both. It is recognized that, usually at considerable cost, a very valuable good-will has been acquired by advertising and that any falling away from the standards claimed in published statements of a product's qualities would soon inevitably endanger or destroy this good-will.

For this reason good advertisers exercise the greatest care in the preparation of the text of their advertisements. Probably no copy of any sort is more painstakingly edited or more keenly scrutinized from every angle by the responsible officers in a business concern. Thought is usually given to every word or phrase to estimate its accuracy and its probable effect upon the

reader. The writing of advertisements is admittedly a task for experts who must command resources of intelligent imagination and have, as well, a knowledge of the psychology of their public.

Today, it is the support supplied by advertising which permits many journals to maintain their notably high standards of text, paper, press work, and illustrations as compared with those journals not so liberally aided. Advertising creates a beneficent circle of better magazines and newspapers through more advertising, thus attracting larger circulation and in turn more revenue from advertisements.

It may be said that it is literally true that the advertising pages of our publications would afford the material from which to construct a fairly complete record of the social, material and educational standards of our time. There is also little doubt that the constant striving for more effective advertising is to a considerable extent reflected in rising standards of service in many activities, as well as in improvement of standards of thought and living among consumers.

Advertising as a Factor in Distribution

SOME students of political economy have pointed out that our greatest economic problem is that of distribution. Production has been developed along intensive and standardized lines, and it would seem that in many industries a high degree of productive efficiency has been reached. But criticism is frequently leveled against our methods of distribution. It is often said that there are too many profit-taking stages between the producer and consumer. Occasionally there is an overstock of certain goods in one community and an undersupply in another section. The ultimate working out of our distribution problem is one that will involve many factors. Advertising has already done a great deal to aid distribution, and it will do a great deal more.

The quickening of demand has broadened distribution, not only of advertised goods, but of other goods as well. It reduces overhead, it stimulates quantity production. It makes carload traffic for the railroads, where there may have been only case shipments before. It draws salesmen into new territory. It stimulates the distributive machinery of jobber and retailer. Increased sales result in larger bank clearings, in the employment of more people, in better business.

Advertising through its primary function of facilitating distribution, has a vital effect on many phases of production. One could go through the whole list of the various branches of production, from the extractive industries to those turning out highly specialized manufactured goods, and find that advertising has been a factor in the development of every industry; the advertising of men's collars and shirts reaches, in its effects, to the workers in the cotton fields. Increased demand for cotton goods means increased opportunity for the cotton grower. California fruit growers, through the use of advertising have been able to stabilize their business, bringing the demand up closer to the production capacity of their groves and vineyards. The conversion of by-products of certain crops into useful and profitable articles has been largely made possible by the advertising of these articles.

In the field of manufacturing, advertising has a more direct relation. Factories have been able, through the use of advertising, to increase their output, to give employment to more people, to create better working conditions, and to stabilize their operations. These results are of economic value, not only to the individual manufacturer, but to the worker as well. This means, too, in a great many cases, lower prices to the consumer, for through increased production, lower unit cost is made possible.

The Call to Duty

THERE lies before advertising and advertising men not only the opportunity for service and profit, but the clear call to duty. There rests upon business and industrial leaders of the world the distinct responsibility to state and explain the facts and principles upon which national and international business progress must be built, through the printed and the spoken word, so clearly that he who runs may read, and that the oft-quoted man in the street may understand. A large and constantly increasing reading public seeks eagerly to know, and it is the mission of the publicist to inform and advise them through all the mediums at his command. To fulfill that mission, we must call to arms the vision of the builder, the courage of the explorer, the keenness of the trader, and the wisdom of the student. They must all be conscripted to this great service and contribute their part to the common cause; their traits are all the proper attributes of the efficient advertising man of today.

The day has long passed, if indeed it ever existed, when advertising, while still not an exact science any more than law or medicine, under proper conditions, can be considered a mere experiment or a speculation. It has long since become a demonstrated economic factor as a business builder and stabilized as well as a clearly proved educational force. That it may not always, in all hands, operate with 100 per cent efficiency is no more a proof of its failure than an unsuccessful operation on the human body by a horse doctor would be a proof of the failure of surgery. Its call is for skilled men, broad men, men who have thoroughly mastered the tools with which they must work, whose sense of public psychology is sure and true and whose vision of opportunity is as broad as the world.

Today particularly invites the advertiser to lay up stores of good will and prestige for future markets. Now is the time for advertising to be informative and educational, to help create new standards of living, to stabilize markets, to make life more comfortable and attractive, as well as more just and sound.

The competent advertising man of today must know not only how to sell his product on a basis of immediate results, but also how to establish good will values for trademarks and ideas which will be reflected in future profits. For in the final analysis, in any modern business that is organized for profit, only those efforts which are reflected sooner or later upon the right side of the balance sheet can be justified, and that end can never be lost sight of. But underneath all our efforts, either specific or general, there should be the appreciation that business must rest upon a basis of public understanding for its final stimuli and ultimate profits, and that business can prosper permanently only upon a ground work of sound economics, some of the obvious elements of which may briefly be mentioned as a sound monetary and banking system, adequate transportation, a respect for the rights of private property and the freedom of initiative. When these are accepted as a part of the thinking of the individual, then and then only will the advertiser be playing his full part. It is in working toward it that we may do most to create new and ever rising public standards.

The Ultimate Goal

ADVERTISING has marched far along the path of public service since the crying of wares at the fairs of the Middle Ages. The transition from the purely vocal sales effort to the use of the printed word to attract buyers which followed the invention of the printing art started the trend toward responsibility through the broader reach and the longer life which attended this form of expression.

The earliest newspaper advertising appeared in England about the middle of the 17th Century, and dealt with offerings of new books and medicines. The first record of other merchandise advertising was of "a new commodity called tea, an excellent and by all physicians approved China drink." Since that date advertising has continuously served an ever increasing public, bringing to hand many important additions to the comfort and convenience of life and raising both the standards of living and the methods and practices of business.

England's great economist, Adam Smith, began his famous treatise on *"The Wealth of Nations"* with the statement that the prosperity of a nation is measured by the happiness of its people. In facilitating distribution, in stimulating production, in spreading information, in creating higher standards of business and life, advertising is adding to the happiness and prosperity of the people it serves.

What statistician can measure the good will values which advertising has added to the balance sheets of business? In America alone these values would aggregate many millions. Even more difficult would it be to appraise the values which advertising has brought to the methods of business and the habits of life.

The real advertising man thinks beyond the visible returns of any advertisement to the purpose it serves, to the people it reaches. It teaches them what to eat and what to wear, how to be healthy, how to prosper, how to save and how to spend, how to play and how to work, how to enrich their lives. This implies a responsibility which cannot be taken lightly. The task should be approached seriously, even reverently with a sense of commercial honor that does not yield to the appeal of opportunism. It is largely the result of this attitude toward advertising and its expres-

sion that our standards commonly exact more rigid conformity to the principles of business ethics than to the requirements of personal ethics.

Let us not forget that advertising may not only render great public service as a creator of business standards, but also exercise a vital influence on public thought. Its vision and its salesmanship are needed in bringing understanding and conviction to a day of doubt and error. Economic and social fallacies crowd upon us; industrial problems rise on every side. Only through understanding can they be solved, and understanding can be created only through publicity. Legislative action rises out of public opinion; public opinion is based upon current information and popular interest or prejudice. These can be met most effectively through such public mediums as advertising commands. In meeting them you are serving not only the ends of good citizenship and social progress, but business advantage, which can be secure only in an established social order based upon sound economic thinking.

If the way could be paved before action by information and understanding, how much fewer would be our sins of economic and political commission and omission. If a new and progressive idea seeking acceptance, or an old and sound idea seeking support, could be presented to the consuming public with the same strength of appeal that a new commodity commands, how much greater chance of prevailing it might enjoy! Even as advertising reached and stirred our souls to sacrifice during the World War, so it may now guide our minds to accurate judgment and rational acts, for the appeal of advertising can be made both to the feelings and the reason, and response and conviction measure the strength of its appeal.

The nations of the world and the people thereof must be taught that they cannot be content "to live and let live"; they must live and help live if they themselves are to enjoy the fulness of life. In our modern world there can be no such thing as isolation. No nation can live unto itself. The body economic consists of many members. Except there be health and cooperation among them all there cannot be complete harmony in that body, nor can it function normally.

Upon those whose business and profession it is to speed the winged word on its mission of service lies some of the responsibility to make that word a messenger of peace on earth and good will among men; nay, rather before them rises the opportunity to serve our day by bringing to world consciousness the realization of our interlocked interests, of the brighter prospect for world-progress which awaits world-understanding and cooperation, of impressing indelibly upon the minds and hearts of men the world over the material, as well as the spiritual value, of a happiness based upon the principles of all the great religions of earth, the love of good, the love of man, truths which know no geographical, racial or political lines, the common heritage, the common ideals of all right-minded men.

Telling the Farmer the Cost

BEFORE individual farmers can make rational and profitable readjustments in their farming operations, it is necessary that they be well informed regarding the costs of producing the various crops and costs of livestock enterprises suitable to their regions. During the present crisis when readjustment in some regions is imperative, this information is in urgent and insistent demand. Thousands of farmers in all parts of the United States are reorganizing their business to bring about a better balance between their crop and livestock enterprises.

Fortunately the results of some long-time studies are already available and newer studies of the subject are widespread. Data collected in these studies depict a day-by-day record of farm operations for each type of farming, showing demands made by each crop and kind of livestock for labor, machinery, cash expenditures, farm-grown feeds, and other elements of production.

Results of six years of study in New York state are available in bulletin form, and results of a three-year study in one county in Minnesota, of a three-year study in Kansas, and of a three-year study in Montana are completed. Records of approximately 2000 cotton farms covering four years have been analyzed and cotton growers have been given a description of the field practices and methods resulting in the least cost and the highest net return.

All of the record and account work in these investigations is conducted Federally in cooperation with the state colleges and experiment stations, for each state is interested to the extent of contributing substantial financial assistance. Many of the states want the studies expanded to cover additional types of farming within their borders. They want the results not only for the use of their farmers, but that they may form a background for university instruction in farm organization and management and in agricultural economics.

MORE than one hundred ranches in Colorado and Texas are yielding cost records of cattle production. These records are supplemented by Corn Belt feeding costs covering more than 500 droves of western-grown cattle each year. For the cattle that are brought to the grass pastures of Kansas, cost records are obtained until they are shipped to market. Thus the available livestock cost figures cover many phases of cattle production and fattening from the ranches of the West, through the feed lots of the Corn Belt, and ending with the livestock finally at the stockyards ready for slaughter. Comparisons are made between costs of grazing on forest reserves and costs of using fenced pastures. All of these figures are analyzed for livestock producers currently, in order that they may determine just the combinations of feed, labor, equipment, etc., that will give them the least cost and the largest net return. Every farmer cooperating in these cattle studies has received reports showing the performance of his own cattle, together with facts and figures that represent good standards of performance in his locality.

Livestock cost studies were increased in 1922 to include cost figures on more than 3,000,000 pounds of pork produced in the Mississippi Valley, in addition to day-by-day breeding herd and feed lot practices and quantities of feed, pasture, labor and equipment used on each farm but under different management. Results have shown the hog producers the influence upon costs and profits in hog production of such factors as size of litter, differing rations, percentage of death loss, age of sows, and kind of equipment. This is the first work of the kind ever attempted.

Costs of dairy production in the important butter-producing sections of New York, Wisconsin, Minnesota, California, New Jersey, and Ohio, have included relative costs and profits under different plans of feeding and management, and relative costs and profits of producing milk of different grades. Study was made in New York to determine whether the price margin of high-grade milk is sufficient to cover the additional expense required to produce milk of high grade.

THE cost work, conducted over a considerable period, has been greatly accelerated by the agricultural exigencies of the past two years. During 1922 costs on all important crops for the entire United States were gathered. This widespread study was made pointed by intensive representative local studies. Wheat production in sections of Oregon, Idaho and Washington in 1922 could be compared with similar earlier studies. South Carolina cotton growing is studied especially. Investigators are working with the tobacco growers of Kentucky and Virginia, with the sugar-cane growers of Louisiana, with the apple growers of the Shenandoah Valley, with the peach growers of New Jersey, with the corn growers of Illinois, and with the wheat growers of Kansas. The chief causes for the present wide variations in cost are determined and shown and, as a result of cost analysis, the best combinations of the factors of production are worked out.

In all these studies, facts are adduced covering the influence of high standard of efficiency in crop and livestock production. Analysis of the different cost factors reveals their relationship to each other and to the total cost. Differences between cash and non-cash demands of growing crops are clearly determined. Relation of costs to prices are traced. Mass meetings to impress farmers with the need for more efficient farm management to combat the high costs of production and marketing are being held wherever enough farmers can be assembled by extension workers.

In view of present emergencies, emphasis is placed on methods in the field, feed lot, and regarding the family table which will reduce to a minimum the necessity for direct cost expenditures, and especial attention is given to the possibility of substituting, so far as profitable, those operations and enterprises that can be handled by the feed and labor already available on the farm. Regardless of what, in normal times, is believed to be best, farmers are now becoming more self-sufficient in all these matters.

The Change of Aim in Savings

By CHARLES H. DEPPE
Vice-President, Union Trust Company, Cincinnati, Ohio

First Object of the Savings Bank was for the Benefit of the Individual. Savings Have Now Become a Factor in Sustaining Industry. Few of those who have Accounts Realize It. Importance of the National Aspect in Legislation.

THE American savings bank furnishes one of the best illustrations of the small beginnings of mighty institutions. After the breakdown of charity as a means of bettering the condition of poverty-stricken groups in Europe, the savings bank proved to be the solution. It had its inception in the mind of a minister in Scotland, and the field covered by the first savings bank was the extent of his parish.

In America, following the Revolutionary War, a number of attempts were made to improve living conditions among the poorer classes by means of relief associations. These, naturally, were limited as to their scope and in their success. Since savings banks were essentially for the poorer classes and for those who had no opportunity to invest their earnings in the business in which they were employed, no great demand arose for the establishment of savings banks in America until the advent of the factory system. Industrial development even in its most elementary form has never been characterized by steadiness of employment. As a result of this situation, even in the earliest days, the workers, by reason of having no institution into which to put their earnings during times of prosperity, found themselves in many cases in direst poverty during seasons of unemployment or in times of physical disability.

The success of the savings bank in Europe led to its establishment in America. New York, Philadelphia, Boston and Baltimore had established mutual savings banks almost simultaneously early in the nineteenth century. The increase in the number of savings banks kept pace with the industrial development east of the Allegheny Mountains. Up to the Civil War period their increase was consistent, but following that war the rate of increase was accelerated. In fact, the regularly chartered mutual savings banks controlled the savings bank business almost exclusively in the East—north of the Potomac—until the collapse in the seventies of the inflation period following the Civil War. When this situation, which had affected all banks so greatly, had cleared, other banks were beginning an activity which, by the beginning of the twentieth century, made them large factors as receivers of savings deposits in this territory, formerly exclusively served by the mutual savings banks.

West of the Alleghanies

THE development of the country west of the Alleghany Mountains did not take with it the mutual savings bank. In consequence savings banking in those sections developed in a different form. As a result of this situation state banks, national banks and trust companies gradually became the depositories for savings deposits. Each year has seen an increase in the number of banks having savings departments; some developed under regulatory law, others without any specific authorization by law.

More Complex

WHEN we survey the fields of varied industry, from the ranks of whose workers are recruited the majority of savings bank depositors, we realize that no development of the past fifty years has been more rapid or more difficult of complete understanding by the small saver or the banker than the growth and complexity of the industrial system. The sheer physical size of industrial plants has been a factor in surrounding their operations with a veil of mystery. In the former years the home was the economic center. About it gathered the industries which gave employment to the members of the household. With the development of power machinery, a gradual change occurred. The men, and later the girls of the family, left home to work in factories. The household industries were financed by the family savings. The factory system could be financed only by the accumulation of capital from many sources.

With the home as the economic unit, family concern prevented undue production pressure. This care became futile with the development of the factory system. Until the various states enacted legislation to properly safeguard the interests of the employees many abuses developed. These, combined with lack of personal contact between employer and employee, led to misunderstandings which have not cleared with the passing years. Philanthropy on the part of the management toward the employees, as a substitute for proper compensation, proved inadequate. Employee or customer ownership may succeed where philanthropy failed. In practically every instance economic information on the part of the worker has not kept pace with the complexities of industrial development. Ignorance of even elementary financial truths is rampant. Yet we know that the so-called capitalistic system in America is secure only so long as the majority of the people believe in it.

The economic knowledge secured by the executive side of our industries is gained as much by participation in the management as by study. The employee, busy only with the mechanical operations, has felt no urge to secure economic knowledge by study. As a result the average worker, it would appear, understands but little more about the fundamentals upon which our economic structure rests than does his small son in the grammar school.

As a result of this condition, which has impressed itself more and more upon bankers, measures on a scale never before attempted have been taken by bankers to guide their customers in gaining knowledge of elementary finance and economics, which will tend to make them more self reliant in business matters affecting their own welfare.

It must not be thought that savings banking has had a uniform development in all parts of the United States. The movement naturally began in the East and kept pace with the growth of population in its migration westward to the Pacific Coast. In the South it has lagged most. A survey recently made by the Savings Bank Division, American Bankers Association, indicates that in 1893 savings business was simply beginning in the South. Since that time it has developed with greater rapidity than in any other section of the country, but the recency of its inception and the nature of southern industries have not enabled it to amass the volume of savings that is found in those sections where savings banking has been practiced since the time of its beginning in America.

Without Conscious Cultivation

THE thrift habit, of which savings is a product, for years grew without conscious cultivation. Year by year savings increased. In the past eleven years savings have increased at the average rate of one billion dollars per year. The interest received by the savers in the United States during the year past was about $700,000,000, being equal in amount to that spent by the United States Government for its ordinary expenditures for any year prior to that of 1913.

When we realize that as of June 30, 1923, approximately $18,000,000,000, representing almost one-half of the reported bank deposits of the country, were in savings deposits with over 30,000,000 depositors and a per capita savings of $166, it places savings deposits as one of the most important factors in banking.

Despite the enormous savings increase in the entire United States there is no doubt that the importance of savings has not been

generally realized by bankers and economists.

From time to time the savings field is enriched by a specific development. Such is school savings—a product of thrift education—developed through the direct teaching of thrift in the public schools in America. Its progress has been unexpectedly rapid. Since 1920 the number of towns using school savings systems has largely increased. At the close of last year approximately 7000 schools, with an enrollment of 3,000,000 pupils, reported almost 2,000,000 participants with bank balances of about $12,000,000.

The Change of Aim

A SURVEY of the first 100 years of savings banking indicates an amazing change of aim. The first aim of the savings bank was purely for the benefit of the individual. It was to make the depositor self-respecting and in a measure financially independent during the periods of depression and unemployment.

As the number of depositors increased and the sums on deposit assumed greater and greater proportions, a new element entered. Savings became a factor of importance in sustaining industry. More and more this came to be understood, but it is not yet fully comprehended by savings depositors themselves.

If our present economic policy is to continue, with the number of employees as compared with the employers constantly increasing and with these employees exercising a greater power in company policies through employee ownership, it is essential that the employees themselves be educated in those principles of economics which bring financial welfare to themselves and prosperity to the country.

The participation in savings by the people generally furnishes the best education in sound and orderly processes of finance and government.

The characteristics of the savings depositor, wherever found in our country, are practically the same, so that in the handling of savings accounts, the banker, whether operating a mutual savings bank, a state bank, a trust company or a national bank, is confronted with similar problems.

This emphasizes the point that in enacting legislation for the regulation of this business and the establishing of practices for its development, the matter should be viewed from a national aspect, in conjunction with local considerations, rather than be regarded purely as a state problem or a proposition affecting only a certain type of charter.

Despite the enormous development of the savings business just noted, and the benefit to be derived in its future enlargement through a broader and better understanding of the economic factors by both the depositors and bankers, there is grave danger in the enactment of unwise legislation for the regulation of this branch of banking. We must constantly bear in mind that a basic principle of savings is that it shall be considered as a time deposit, and any encroachment on this principle to increase the popularity of saving, by injecting the thought of a demand deposit as applying to this field, would be destructive. Ill-matured thoughts and partially developed plans should not hastily be promoted in any legislative program having for its purpose the better regulation of this phase of our national prosperity.

Therefore, extreme caution should be exercised in the consideration of legislation on this subject to promote successfully, rather than retard in any manner the magnificent growth of the truly American edifice—savings banking.

Bankers As Our Vice-Presidents

A BANKER has never ascended to the Presidency of the United States, but three times the nation has honored a banker with the next highest office within its gift. And, if the Republican party is victorious in the November elections, the country will have a banker as Vice-President for the fourth time.

Charles G. Dawes, nominated to run with Calvin Coolidge under the G. O. P. standard, has been actively engaged in banking for many years. Although first a lawyer by profession, Mr. Dawes was appointed Comptroller of the Currency by President McKinley and held this post from 1898 to 1901. The next year he organized the Central Trust Company of Illinois and was the active head of this bank until January, 1921, when he became chairman of the board of directors and relinquished the personal direction of affairs to a new chief executive, so that he could become the first Director of the Budget under President Harding. The Vice-Presidential nominee is the author of several books, one of which is "The Banking System of the United States." It was this first work, brought out in 1894, that was a principal factor in his selection for the Comptrollership under McKinley.

While Mr. Dawes has not started his campaign with characteristic banking caution, he observed at the outset that "this country is not suffering from too little talk."

JAMES SCHOOLCRAFT SHERMAN, Vice-President under Taft, was a banker. At the time of his selection for this post he was president of the Utica Trust & Deposit Company of Utica, N. Y. Like General Dawes, Mr. Sherman was a lawyer in his early life, but he became interested in banking. He was the twenty-seventh Vice-President, and helped to create the first trust company in his home city.

William Almon Wheeler, who served as Vice-President under Hayes, was cashier of a bank in Malone, N. Y., before he ascended to this high position. One of the things for which Mr. Wheeler is remembered is his course in the House of Representatives when the so-called "Salary Grab" Act was passed by Congress. Mr. Wheeler, who opposed the House voting to raise its own remuneration, accepted the increased salary and bought government bonds with it. He assigned the bonds to the Secretary of the Treasury and had them canceled. Thus neither he nor any of his heirs could ever profit from the legislation which he thought highly unethical.

Levi P. Morton, Vice-President under Harrison, entered upon a career of banking long before he was elected to this high office. He was a descendant of George Morton, the financial agent of the Mayflower Puritans in London. In 1863 Mr. Morton started as a banker under the name of L. P. Morton & Co. in New York. Soon after this time he established a foreign branch under the name of L. P. Morton, Blair & Company. In 1869 the firm was dissolved and reorganized under the name of Morton, Bliss & Co. in New York, and Morton, Rose & Co. of London. Mr. Morton later filled important posts in the diplomatic service abroad.

WHILE not strictly a banker, Garrett Augustus Hobart, Vice-President during McKinley's first term, was interested in many banking corporations and served in many fiduciary capacities. He was named receiver for the First National Bank of Newark, which failed in 1880, and accomplished the payment of the bank depositors in less than six months' time. Mr. Hobart was a lawyer by profession.

Although no President was ever a banker, many were intensive students of the banking laws. President Fillmore, before his election as Vice-President, was Comptroller of the state of New York. In his report of Jan. 1, 1849, may be found the suggestion for a system with the bonds of the United States as a basis for the issue of currency. This was substantially carried out when the National Bank Act came into existence during the early part of the Civil War.

The Vice-Presidents are America's unknown notables. With comparatively light duties, they have a great deal of time to study the important questions of the day. John C. Calhoun, the eminent South Carolinian who was elected Vice-President in 1824, years later wrote: "The station, from its leisure, gave me a good opportunity to study the genius of the prominent measure of the day—called then the American system (Clay's bank scheme), by which I profited!'

To Beat the Boll Weevil

The first of several prizes offered by the Hibernia Bank & Trust Company for essays on methods of combating the boll weevil has been awarded to Charles E. Speed of Tallulah, La. The prize was $250. The opening sentences of the prize-winning essay summarize the whole presentation: "After a number of years of discussion pro and con as to the best methods for boll weevil control, the leading men, farmers, extension workers and scientists have all agreed that the most essential things to beat the weevil are simply good farming methods and calcium arsenate. The following eight points will thoroughly explain what are the best methods for most general use for the entire cotton belt: Fertile soils, good drainage, well prepared seed beds, early planting, early varieties, good cultivation, good stands, poison.

Some of the Major Problems

By JAMES E. CLARK

THE United States has entered upon what may be called the season of unseasoned promises—the time when authorized and unauthorized promises on the part of the leading political parties are likely to raise unwarranted hopes.

The rise of the special interest movement in Washington during the last four years, the energy wasted in Congress during the last session in debating questions which in a company of economists were classed as non-debatable, the dangerous strength of interests intent on getting recognition for pet measures, all indicate that there will be temptation on the part of party spokesmen and party workers to commit themselves and their organizations to impossible deeds.

The magic of having things done by law, when one's friends are in power, is receiving a setback in England. There one of the outstanding problems confronting all classes and all business still continues to be unemployment. Many enthusiastic labor men believed that if the Labor party were in control of the machinery of the government, the party could set the machinery of trade going and give jobs where now it is giving "unemployment doles."

But the over-enthusiastic are learning that there is no short cut to unemployment; there is apparently no more magic in the wand of one party than in that of another. England has 770,000 unemployed male adults, and instead of the work that the over-enthusiastic expected under the new regime, they now are candidly and honestly told that the Labor Government "cannot produce rabbits from a hat."

This frank admission comes across the Atlantic at an opportune time. Though the admission may not limit rashness of promise, it should temper the expectations of those to whom promises are made. Though there may be plenty of determination and the finest of intentions to serve particular interests, there will still remain—even though acts be put upon the statute books—those uncontrollable laws of economics which in the end will render special interest measures mere reading matter as far as producing prosperity is concerned.

That the new party is hedged about by the formidable restrictions of its predecessors and can find no escape from them is further revealed by a few lines in the *Monthly Review* of the London Midland Bank, Limited:

"The first Socialist Government has produced a budget which marks no departure from the principles of conservative and orthodox finance. The provisions made for debt reduction constitute a continuance of the policy of the previous Government, no new lines of expenditure have been embarked upon, while the revisions of taxation have, with a single exception, received general approval."

So it appears that prosperity cannot be achieved by a stroke, whether the attempt be made along destructive lines, as has been attempted in Russia, or along conservative, constructive lines, as has been attempted in England and here in America. Individual initiative, industry and economy should not be weakened by arousing great expectations from governmental aid.

A Question for Business

IS there anything wrong with an educational system that produces men

—alert enough mentally to complete a university course;

—alert enough also to be regarded as brilliant;

—yet sordid enough to murder like savages;

—stupid and ignorant to the point of believing that they could escape detection for the crime of premeditated murder in the heart of a great city?

These questions may well be asked by Business—because the business of the country carries its part of the educational burden of the country and because business men are constantly turning into the universities millions in free gifts.

Among other things higher education usually instills in the student the idea of obedience to law. He learns the economy and the sanity of adhering to mathematical law, to chemistry's laws, and to various natural laws. Then why this contempt in a university environment for the laws of humanity and the laws of the land?

Education usually instills the idea of usefulness. Then why upon the completion of a college course do we find two men devoid of the spirit of usefulness and imbued with the spirit of wanton destruction?

That the mentality revealed by the two students who are accused of an atrocious murder is not the mentality of the average college man goes without saying; that the two men are as revolting a surprise to their fellow students as to the rest of the world is beyond doubt. Nevertheless, we cannot shirk the responsibility which the case imposes by merely stating that it is without parallel in the history of education and will never happen again.

Business and education might better join forces and ascertain, if they can, whether or not the general educational system needs orientation.

Beyond Europe

THE problem of helping Europe that we may help our own business has been so close to our eyes since the end of the World War that what is going on in the rest of the world has had but relatively little attention. Yet there are ferments beyond Europe as well as in it that may well give us concern. Notable among these is the ferment in China, where government has weakened to the breaking point and millions are in a state of unrest. The spirit of nationalism which flamed up in other countries during the war was kindled also in China. To what it eventually may lead no man knoweth—a better China, or a great part of the habitable globe given over to chaos—a gradual return to something approximating what is normal in the Orient or a recurrence of movements which wrought only devastation within and without the empire? How much civilization has already retrograded is suggested by a correspondent of the *London Times* in these words:

"Life in this country at the present time is far from happy, either for Chinese or for foreigners. Nothing goes well. The business of government, as it used to be conducted in a loose but not ineffective manner, is entirely disorganized. The authority of the Central Government has been destroyed and what has arisen enjoys little respect and no confidence.

"The military rulers in the provinces are responsible to themselves alone, with the natural consequence that the people are exploited in order that provision may be made for the inordinate number of soldiers. River conservancy, a vital necessity in certain provinces, is neglected and disasters have occurred and will surely increase in number. The desire for education, everywhere manifest, is thwarted because the funds that should be available are diverted. Trade languishes in the interior because of the irregular exactions on goods in transit or the imposition of illegal taxation.

"Capital is ebbing from the provinces and flooding the Treaty Ports, where it may be invested safely under foreign protection. Enterprise is stifled because it is certain that nothing can flourish while the Tuchuns are waiting to pounce upon the profits. The poor farmer never knows when the bandits may descend upon him, burn his homestead, commandeer his stock, and carry away his best wife and prettiest children. Or, worse, when the troops, supposed to be hunting the bandits, billet themselves on him, taking all he has and ravishing his women-folk. Even the coolie is never safe, for he is impressed to carry for troops and bandits alike, and discharged with kicks when exhausted. There is no law and, therefore, no security for anything or anybody. Such is the position today in the greater part of China, and it is no exaggeration to say that peace, comfort and happiness have departed from the people.

"The lot of the foreigner is not much better. Missionaries in the interior are never out of danger, as the numerous cases of murder, kidnapping, robbery and burning of homes testify. Steamers on certain coasts are always liable to attack by pirates, and those on the rivers are constantly being fired upon either by troops or bandits. Under this heading there is a long roll of killed,

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Some Causes of the Present Discontent

By NICHOLAS MURRAY BUTLER
President, Columbia University, New York City

Restlessness World-Wide. Largely Uninformed as to Its Own Causes. Has No Clear Conception of the End at Which It Would Aim. Political Methods Have Not Kept Pace With the Ideals of Democracy Nor With Changing Economic Conditions.

DISCONTENT in itself may very well be a sign of progress. It may mean that men are unhappy in their present conditions and under their present surroundings, and that they would like to make such changes in their economic, social and political structure as would advance what they believe to be their common interest. That may be called a sort of reasonable discontent, one which understands its causes and has in mind the steps necessary to improve the conditions of men.

But I fancy most of the discontent that is abroad in the world just now is of a quite different character; it is restless, it is largely uninformed as to its own causes; it is radical, and at times revolutionary, in its expression, and it has no clear conception of the end at which it would aim. Now that is not a condition peculiar to the United States. One of the significant things about the time in which we live is that all the way from the Ural Mountains to the Golden Gate, across all sorts and kinds of population, speaking fifty different languages, brought up under fifty different sets of conditions and circumstances, something like similarity obtains in this matter of discontent. It finds one form of expression in Russia; another in Italy; still another in Germany, in France, in Great Britain and in the United States. But at bottom, all these seem to be manifestations of one and the same thing. I am disposed to think that at bottom this discontent is due to the fact that our political institutions and our political methods have not kept pace either with the ideals of democracy or with the rapidly changing economic conditions which control our modern life.

The Appeal of Democracy

WHEN the democratic movement, which is really only some 300 years' old at most, first manifested itself, it made an appeal by its simplicity, its fairness and its practicality, which rapidly conquered the hearts and minds of men. It was a very simple program and one which no man could misunderstand. The essence of the program was that all men are politically equal; that the establishment of governments and the choice of governors rest upon the consent of the governed; and that in matters of practice, where there is difference of opinion, the way of the majority must prevail. These constituted the very simple elements of the democratic creed.

There went with it, of course, the assumption that all the old distinctions of class and rank and privilege were to be broken down, and that every individual born into the world was to be set free to make the most of himself, according to his intelligence and his capacity, and to take his place in the citizenship of his nation as a free, upstanding man. That program was so splendid that it speedily conquered the hearts and minds of one nation after another. It produced the English and French revolutions. It caught in its grip the smaller nations of Europe. When our own Constitution came to be written, all this was so much taken for granted that it was not even discussed.

Voice of Criticism Heard

WITH some difficulties, imperfections and obstacles, the democratic movement went on for perhaps a half century, and then the voice of criticism began to be heard. There were those, cynical and disparaging, who insisted that this democratic program was of itself false in theory as well as unreasonable and impractical. But their voices were drowned by the cry of a far greater number, who held that democracy was sound and needed only to be properly worked in order to produce happiness and freedom for all men.

This political democracy grew out of an industrial system which itself was simple and well established and had been in operation for hundreds of years. It was the system of individual agriculture, individual manufacture, individual transportation and individual trade. All that was easily assimilated with this new democratic doctrine, and all men strove to make the most of themselves, to develop their power, to increase their intelligence, to gain by occupation and industry those savings which by thrift might become new capital, and so build a family, a town, a state, a nation that should be secure and lasting and beyond the reach of the storms of revolution because its social and economic foundation was secure.

Then came what we call the industrial revolution. Steam and electricity revolutionized the economic life of man. These brought in their train mass production, the factory system; and these in turn brought the great urban community with its call to the farm laborer, the farm cultivator and the farm dweller, and its new series of problems the like of which had never been known before—problems of health and housing and education and local transportation—all of which were new and put a great strain upon the structure of government.

Caught in the Meshes of a System

THE functions of government began to multiply. The number of functionaries multiplied. The cost of government increased until finally men found themselves caught, despite themselves, in the meshes of an enormous bureaucratic system of governmental control that was the outgrowth of these new industrial conditions, utterly strange to the political theories and ideals under which they are working.

But something happened that was even more significant than that. This new industrial system speedily divided men into groups. They were first the employer and the employed. Then these became generalized and personified and spelled with large letters as Capital and Labor. The next step was to think of these two groups as having no common interest in production, but as having divergent and contradictory interests. These divergent and contradictory interests must then be settled, if possible, by economic means in the economic sphere; or if not, then under economic pressure in the political sphere.

The whole tendency of free government changed. The content of the law became wholly different. The interests that were uppermost in the minds of men were new. There is no more comparison between the statutes being discussed and passed, or not passed, by the Sixty-eighth Congress and those that were discussed and passed thirty years ago, than there is between the America which Columbus discovered and the America which we know. We are living in an age so completely changed from that which our grandfathers knew, and that change has come about so gradually, that we hardly realize either the problems it has brought with it or our apparent lack of capacity to deal with those problems.

The moment the notion of class was intro-

duced into the democratic state, that moment a most dangerous agitation began. No longer were men common and equal citizens, having the same rights and privileges in the social, economic and political life of men; but they were the members of a group, and that group had primary rights which it must find some way to enforce.

It Happened Abroad First

THAT happened abroad before it happened here. It happened in the old Germany of Bismarck; in France immediately after the establishment of the third republic; it began to happen in England; it began to happen here. It brought the notion that at the bottom society is made up not of politically equal individuals, but of warring and conflicting groups, blocs, sections, trades—whatever you choose to call them—and that these men must in some way crush their opponents under foot, or annihilate them, in order themselves to flourish. That, of course, is the absolute denial of the whole democratic principle. It means that, instead of political equality, there is group struggle; instead of individual opportunity, there is class conflict.

Unfortunately or fortunately, as you like to view it, when this movement got well under way and needed a program and brains, the program and brains were supplied by the German communist, Karl Marx, who definitely said that this was a sounder theory than democracy, and that democracy must go down before it. He preached not only the necessity of the class struggle, but its benefits. Thousands and thousands of men have listened to that teaching and, whether they know it or not, have deserted faith in democracy for some form of worship at the shrine of communism.

It will not do to underestimate the power of the enemies of democracy, because they are intelligent; they are persistent; they have little to lose and everything to gain. It is quite customary for us traditional Americans, secure in our sound American faith, to wave our hand at these attacks and say, "Whatever may happen in other countries, we are fortunately protected from that."

I wonder whether a great many of the proposals, which lately have been most urgently insisted upon before our national legislature and before our public opinion, do not represent and reflect in greater or less extent the theory and philosophy of class struggle, rather than the theory and philosophy of American political democracy. We must have a care that we do not permit the Trojan horse to enter our citadel and discharge there the enemies of the democratic system, of democratic ideals.

Cannot Be Met by Words

IT will not do, however, for those who believe in democracy to attempt to meet this discontent by words or by mere negation. It is necessary for us to recognize the fact that these new economic conditions have brought about situations with which our political institutions must deal. It was Edmund Burke, I think, who said he had observed that mankind as a rule was about fifty years behind the times in his politics. It will not do for us to remain fifty years behind the times in our politics if we are intelligently to withstand the attacks upon democracy which are the outcome of a nation-wide and world-wide discontent. We must so adjust our political to our economic system that we remove as speedily as may be any just cause for the belief on the part of any man that he is not given a fair chance.

Mr. Lowell, in his genial way, once defined democracy as "that system under which every man has a fair chance, and knows it." We must be sure that he not only has a fair chance, but that he knows it. We must be sure that every mature and willing worker has the opportunity for permanent employment at a reasonable wage; that he has ample opportunity for education and recreation; that he has a share in determining the conditions under which his cooperation in industry will be given; that he has an expectation of sharing in such return as there may be after a reasonable wage has been paid and after Capital has had that reward which will not only pay it for its risk, but attract other capital to invest; and last, that he shall have opportunity to rise in the social, economic and industrial scale just as far and just as fast as his intelligence and his powers will permit.

Given all that, together with the provision of steady and open markets for agriculture and cheap transportation to those markets, then the modern democratic state will have done all it is possible to do to make way for its people to prosper and to rise, and to ward off the attacks of communism without plunging into that hopeless morass where men are encouraged to believe that by some legislative sleight of hand they may all be made happy, prosperous, rich and virtuous.

Leave Something for the Individual

SOMETHING will have to be left for the individual to do, and that will be the building of his own career and the building of his own character. In other words, so far as this aspect of the matter is concerned, discontent can only be removed by an earnest, practical and effective demonstration that the great underlying principles of political democracy are consonant with the solution of the economic and industrial problems of today; and that we need not send men to worship the strange gods of communism in order to deal with those problems.

There is another phase of the matter which affects us in the United States very directly. There is widespread discontent with our own working of our own government. That finds expression in many different ways. Here are a few of the outstanding reasons for that discontent.

First of all, the complaint is general that the nation's legislature is curiously and almost inexplicably unresponsive to American public opinion. In fact, pretty much everything is listened to under the dome of the Capitol at Washington except public opinion. Any group, any class, any bloc, any salaried lobbyist with a committee and stationery is impatiently on the doorstep of the Congress day after day and night after night. For some reason they get things done which the public opinion of the United States, manifested in ordinary fashion by the voice of the people at the polls and through the press, is unable to get done.

One of the first things we must do to remedy our discontent and to make our government function better is to bring national legislation more directly under the will of the people as a whole by making it more directly and quickly responsive to that expressed will, and thereby and to that extent removing it from the control of blocs and groups and organized lobbyists existing for every purpose under heaven except the reduction of the people's taxes and the effective operation of the people's government.

Then it is fundamental in our government that there is separation of powers between the executive, the legislative and the judiciary. That separation I believe to be perfectly sound in theory, and if properly worked, admirable in practice. As a result of the developments of the past fifty years, the enormously increased mass of our governmental business, the wide-reaching problems and their importance to great masses of people, there has been for a long time a strange lack of understanding and cooperation between the executive and the legislature. At the time when there were strong party organizations, the president of one party could depend upon support from his compact organization in the legislature. That is no longer the case. But apart from that, there are matters of public business, matters perhaps involving the just right of criticism and inquiry on the part of Congress, which can now be dealt with only by some such extraordinary and exceptional means as we have been witnessing for some months past.

Perpetual Turmoil

WE have an electoral system, which, if anyone had set about devising an obstacle to public participation in government, could hardly have been improved upon. What with primaries, conventions, canvasses of one sort and another, we are in perpetual turmoil, and only those seeking public honors and those who have some keen personal interest in the outcome are able to keep pace with it all.

Turn to Canada, Holland, Switzerland, Great Britain and France, all of which are progressive political democracies—no primaries—no conventions—just one election, where the people express finally and definitely their will, and their government begins at once to function. As a result partly of our electoral system and partly of other causes, there is very small participation by qualified voters in the conduct of our government.

No stream can rise any higher than its source. No government can be more effective than the people, whose government it is, insist upon making it. We have before us and without too much delay—for this is a case in which delays may well be dangerous—the task of so framing our public policy that there will be removed any just cause for discontent growing out of our changed economic system, and to indicate to ourselves and to all the world that American democracy is not something fixed and hard and definite and mechanical; but that it is a theory, a principle, an ideal which

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Payments Will Not Hurt France

By EDWIN L. JAMES

Four Defects in the Argument that the Allies Can Be Paid only if Their Home Markets are Flooded with German Goods. Peril of Germany Cashing France Out of Markets by Selling Enough Goods to Make Reparations Payments Is Remote.

THAT Germany cannot make large reparations payments unless she does an extensive and favorable foreign business admits of no successful contradiction. While there may be a popular lack of appreciation of that truth, it is fully recognized by the allied negotiators. But to reason from that major premise that Germany can make no reparations payments except in kind, and that the Allies can be paid only if their home markets are flooded with German goods and their business on world markets seriously damaged by German competition in building up a favorable trade balance, is going to a length the French refuse to go. Such an argument, as applied to the French claim for reparations, is full of holes. The largest holes may be marked with the following tags:

1. German trade balances in all other countries, as well as France, would, under the Dawes plan, be available for payment of reparations.
2. French trade is of a nature that does not greatly conflict with German trade in the world markets.
3. France is largely a self-contained country.
4. German ability to make cash payments does not depend entirely on shipments of goods, even though it does depend largely on her favorable economic balance. They are not completely the same thing.

The AMERICAN BANKERS ASSOCIATION JOURNAL in its June issue, under the title *Two "Ifs" in the Reparations Plan,* set forth the ideas of Hjalmar Schacht to the effect, first, that all reparations payments must ultimately be in kind and, second, that due to unfavorable trade reaction, receiving reparations would cost the Allies more than the payments were worth. He agreed that Germany could raise, within her borders, the minimum of 2,500,000 marks a year envisaged in the experts' plan.

If Only the Allies Were Hurt?

TO argue that Germany can pay easily but that it would injure her creditors for her to do so scarcely comes with good grace from a Germany which has devoted every possible endeavor for four years to escape paying. Why did she do that if she was able to pay and only the Allies would be hurt? But due to his position and his evidence of a desire to assist General Dawes and his colleagues, the arguments of the head of the Reichsbank are worthy of consideration, especially since in the final negotiations for putting the Dawes plan into effect they will doubtless be heard.

Now, of course, other Allies are entitled to reparations under the provisions of the Treaty of Versailles, but because France's share is more than half, and because undoubtedly the English will largely forego their claim on Germany in the final settlement, the attitude of the French is the determining factor in the reparations business. It may be stated quite clearly that the French are not afraid of being paid by Germany; they face quite calmly the prospects of any harm which may come therefrom, and expect benefits.

The readers of the AMERICAN BANKERS ASSOCIATION JOURNAL know that the Dawes reparations plan is based on the payment by Germans of various forms of taxes, which sums in German money are to be paid into the New Bank, where they will be under the control of a Transfer Committee. Allied orders for deliveries in kind will call for payments to the German industrialists making the deliveries by means of drafts on this Allied account in the New Bank. The remainder is to be transferred into foreign gold credits for delivery to the Reparations Commission in the measure it may be done without imperiling the standing of the German money. Provision is made whereby balances abroad of German exporters, which represent, of course, Germany's favorable trade balance; incomes from German foreign investments; foreign money which may be gathered by the New Bank in handling foreign accounts, and other resources are to be placed at the disposition of the Transfer Committee. In other words, a German citizen, holding a balance abroad at his order, would accept from the New Bank German money—which is to be good money, with a gold reserve behind it—in exchange for his foreign holdings. Generally speaking, the German exporter would be expected to make the products of his sales available for reparations transfer; but, since German importers must have foreign credits to pay for raw materials and other commodities brought into Germany, what would be dealt with would be largely the excess in value of German exports over German imports.

The Profits Germany Earns All Over the World

IT is generally calculated in France that one-half of current payments should be made in kind and one-half in cash—that is, after a preparatory period recognized as necessary for the German economic machine to get back into good action.

To argue that under this system France would, in reality, have to take all reparations payments in kind presents a reasoning which would be valid only if Germany traded with no other country than France and France with no other country than Germany. But, presuming Germany builds up a foreign business which will show a favorable balance—and without presuming that, it is useless to consider reparations at all—a favorable balance resulting from the sale of potash in the United States would be just as available for use in transferring reparations payments as a balance in France. German trading with Holland, Sweden, China, Australia, England or any other country enters into the scheme. It is not a matter of the Allies, and particularly France, paying money to Germans for their goods to get it back for reparations. It is to be the profits Germany earns all over the world which are to pay cash reparations, through the activities of the Transfer Committee.

Much might be written of the application of Herr Schacht's remarks as affecting England and, in a lesser manner, the United States, but so far as France is concerned, the peril of German industrial expansion chasing her out of the world markets is remote. France does not export the same things as Germany. *Rue de la Paix* hats and *Rue Saint-Honoré* gowns are not made in Berlin. People who buy them in Paris this year will buy them in Paris next year and the year after, and for as many years as Germany will be paying reparations. The silks of Lyons cannot be run out of the world market by anything Germany can export. French exports are essentially de luxe exports, representing French labor and skill, which fact is eloquently proved by regarding the commercial figures of France.

In calculating the position of France, it must be remembered that France is largely a self-contained country. Her foreign trade is perhaps even less important to her than foreign trade is to America. Not only does she export a special kind of export, but her exports are a small part of her national business, and threats to her foreign trade, even if existent, do not carry the same meaning as they would to England. She is not a free-trade country and is in a position to protect herself against German dumping as well as is the United States. The French position, that she wants Germany to pay her reparations by means of exports to other countries, may call for caustic comments from the other side of the Rhine, but that is just France's position and, furthermore, it is just as reasonable as the American position that we wish France to pay us, but we put up a tariff wall to prevent her paying in goods.

Reparations in Kind

THE 50 per cent of reparations to be received in kind do not worry your Frenchman. The largest part of that amount is included in the expected German deliveries of coal and coke, which, so far as they have been received, France has succeeded in absorbing without noticeable difficulty. There are other things France has always bought of Germany and which she can now receive in payment of reparations, and if she chooses to use German payments for the iron ore the Ruhr must have from Lorraine, that will probably offset inconveniences from German imports.

But it is realized in France that, while Germany's trade balance is a most important factor in the situation, it is not the only one. The experts calculated that Germans held abroad some eight billion gold marks, mostly in investments. The income, at 6 per cent, on this amount would be almost a half billion marks a year which, under the workings of the Dawes plan, would be largely devoted to enabling the Transfer Committee to make payments in cash to the Reparations Commission. If the Germans' annual payments into the New Bank for reparations reached 2,500,000,000 marks and one-half were set aside to be transferred in cash, it can be seen that the income in Germany's foreign investment would go a long way toward solving the problem, without touching the ordinary trade balance. In addition there are items of invisible export which do not appear on trade statistics, as, for instance, shipping income, which for a large part is in foreign money, and which before the war accounted in considerable degree in the scheme of German trade expansion.

The French contention that Germany's ability to pay, or rather the ability of the Transfer Committee to make payments to the Reparations Commission, is not necessarily limited by the amount her current trade statistics may indicate, receives support from the observations of the experts, for on page 13 of the Dawes report it is said "a country's 'economic balance' defies exact calculation. The balance, even at a given moment, can only be estimated approximately, for the invisible exports and imports which constitute an important part of it cannot be known exactly." And on page 42 it is said: "In a country with an economic life such as that of Germany, invisible exports may increase more rapidly than physical exports, and there may be a growing prosperity which is not reflected in export statistics." Therefore, the experts worked out a complicated method, calculating the index of prosperity which should measure the annual total of reparations payments.

Ways to Accumulate Credits Abroad

SO in France it is argued that a prosperous country finds many ways to accumulate credits abroad. Frenchmen recall that prior to the war they invested 25,000,000,000 francs gold in Russia and 7,000,000,000 francs in Turkey, and certainly no French trade statistics ever indicated an ability to transfer this much wealth abroad out of exporters' foreign balances.

It is also recalled that after the Civil War immense sums of European money were used in the development of the United States, and it is argued this money did not go across the Atlantic entirely in the form of goods. One frequently hears it argued here that before the World War France had credits all over the world, which she built up largely following the Franco-Prussian war. These citations are used by Frenchmen to support their contention that, if Germany really gets back to work like she was before the war, she can pay reparations, and she can pay half in cash. That this cash must come from German trading with other nations, as well as France, is regarded here as no hardship on anyone, since obviously, Frenchmen say, people will buy from Germany only what they want. I have already explained why the prospect of Germany's underselling competitors in world markets does not particularly worry the Frenchman. There is no denying it worries the Englishman, but we are here dealing with the French attitude.

It is not meant to convey the impression that the prospect of a Germany with a reestablished world economic position does not cause the French to think. They do not like the prospect, but their dislike of it does not come from the fear of being flooded with German goods. It comes from the fear that a Germany economically strong would be a Germany militarily strong, and that eventually France, with less than 40,000,000 people, will find herself again face to face with an armed Germany of perhaps more than 70,000,000. But the French do not believe that a solution of the problem lies in giving up reparations. With their government facing serious financial difficulties largely caused by borrowing money at home to rebuild the devastated region, it has been, and promises to continue to be, their policy to demand the payment of reparations as a *sine qua non* of their reestablishment of fiscal solidity and to take care of their security by alliances with their friends. Indeed, with or without alliances, it is the belief of most Frenchmen that security lies in enforcing the payment of reparations, because without the reparations debt, Germany would be the real victor of the World War, the only nation to come out of that struggle without money cost, since the debâcle of the mark wiped out the German domestic war debt.

France Will "If"

AS to Herr Schacht's fear as to whether or not German payments would really help France if she got them, the French are quite clear and concrete. They have borrowed and intend to borrow, for reconstruction purposes, from their own people considerably more than 100,000,000,000 paper francs, which represents a sum in excess of the 26,000,000,000 gold marks they have fixed as the minimum they will accept as their part of reparations. The Dawes committee calculated Germany could pay a minimum of 2,500,000,000 gold marks a year, with a maximum of perhaps 3,500,000,000 marks. France's 52 per cent share would just about take care of the service of her reconstruction debt. By the sale of German coal and coke and other products to her industrials, she can realize part of this sum; the remainder she wants in cash. Herr Schacht's idea that it might be better for Frenchmen to keep on shouldering this debt may or may not be right; but, anyhow, France intends to try the other way and let Germany pay it.

Naturally a great deal of attention has turned upon the new French government, or rather the new Chamber majority, to observe what would be its attitude on the reparations issue. The victory of the French *Left* in the lower house and the resulting dethronement of Premier Poincaré, together with the ousting of President Millerand, would, on the surface of things indicate a change, since the foreign policy of Millerand and Poincaré was based on a policy of firmness toward Germany, the most widely noticed feature of which was their determination to hold the Ruhr until Germany had paid in full the 26,000,000,000 gold marks demanded by France. But the change in French policy toward Germany will be less than might have been expected. The leaders of the new majority, headed by Edouard Herriot, will not move to reduce reparations, at least until it has been established that Germany cannot meet the conditions of the Dawes report. This plan will form the basis of the new French policy on reparations, and requests from Germany for a revision of the total would almost certainly be met with the reply that, first of all, the Dawes plan must be given a fair trial. If it shows Germany can pay enough to give France, through her share, 26,000,000,000 gold marks, there will be no reduction; if it is shown Germany cannot meet the Dawes plan, the matter will be reconsidered.

The Issue of Security

AS for the Ruhr, there is a basic difference in the policy of the new majority and that of the *Bloc National.* Poincaré purposed to stay in the Ruhr until France was entirely paid; the new majority will agree to evacuate the Ruhr as soon as Germany has convinced them she intends to try to carry out the experts' system. Herriot, Briand, Painlevé and other leaders of the *Left* were opposed to the occupation of the Ruhr, but once it was undertaken they supported Poincaré in carrying through the experiment. As they now see it, collecting reparations by exploiting the Ruhr was one system, which is now to be abandoned in favor of another system—namely the Dawes system. While it was necessary to have troops in the Ruhr while France and Belgium were exploiting it, they see no necessity of the troops when the other system is in operation. It will be recalled that Poincaré agreed to give up the exploitation of the Ruhr to permit the Dawes plan to be put into effect, but he insisted on keeping the troops there as a guaranty of German good faith. The new leaders are willing to trust Germany to a greater extent than Poincaré.

It is one of the main planks of the *Left* platform that the military forces of France should be reduced, and so, inevitably, their leaders' attention turns to the issue of French security. Building their hopes of obtaining security upon the League of Nations, they wish Germany to become a member at the first opportunity—which will be at the meeting of the League Assembly in Geneva in

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Putting the Breath of Life Into Dead Money

By REUBEN A. LEWIS, JR.

Mutilated Money and Charred Liberty Bonds Worth Nearly Four Million Dollars Annually Redeemed by Treasury Experts. Crestfallen Men and Stricken Cities Put On Their Feet By This Unusual Group of Government Workers. Many Pathetic Cases.

ROBBING hard luck of its sting is the job that the United States Government assigns to one of the most interesting, if unsung, group of workers on the Federal payroll.

For, out of the mutilated, mangled, torn and charred notes and securities—nearly all tokens of the little tragedies of life that the loss of money brings—they patch together the surviving remnants or discover in the remaining fragments enough identifying characteristics to justify redemption on the part of the Treasury. It is nothing short of amazing to see how these mutilated-money experts reconstruct from what appears to be a few shreds of charred paper, or a mass of red and yellow scraps, something that may be recognized as an erstwhile piece ot American currency, or an interest-bearing bond.

There is hardly ever a disaster of any moment that does not result in the loss of money or securities through fire or flood. Just now at Washington the experts are endeavoring to identify charred bills and Liberty bonds that were partially destroyed during the earthquake in Japan. Even the debâcle of the mark has left signs behind, for when the mark collapsed and the American dollar circulated widely in Germany, an unscrupulous band of note-raisers made hundred dollar bills out of our one dollar notes by the mere expedient of pasting 100 where 1 had been before. The unfortunate Germans, eager to get our dollars, but unfamiliar with their characteristics, accepted the raised counterfeits, so the balance of exchange plunged lower.

Claims for Losses

EVERY day at the Treasury 100 or more letters and boxes arrive, containing appeals for the redemption of damaged money. Almost as many parcels are received in the Claims Section of the Division of Loans and Currency, where some unfortunate holder of a Liberty Bond or some other interest-bearing security recites how the bond was burned, damaged or destroyed. As might readily be imagined, the stories, in many cases, take a tug at your heart strings because a little sum of accumulated money, often representing the savings of a lifetime, has frequently gone up in smoke or has rotted in a mouldy hiding place. Rats manage to sneak away these valuable notes or bonds to their nests to be chewed into infinitesimal particles by their sharp little teeth. Torn into many shreds by machinery, caught in a threshing machine, washed in a laundry mangler, run over by a railroad train—legion are the ways in which thousands of United States notes and bonds are mutilated. And probably due to the inborn belief in the fairness of Uncle Sam, almost as many different kinds of appeals for redemption have reached the Treasury to be passed upon by the little band of experts who act upon the claims.

While the exact figures on the redemption of mutilated and damaged currency are not compiled, it is estimated that the Treasury redeems about $300,000 annually, of which one-third represents burned money and the remainder mutilated currency. The redemption of Liberty Bonds and other interest-bearing securities runs into much higher totals, because the value of each piece generally exceeds that of a silver or gold greenback or currency certificate. The government last year replaced $489,400 in mutilated currency and replaced $3,546,700 in bonds, notes and Treasury and War-Savings certificates that had been lost, mutilated or destroyed. Thus the nation's bill for its carelessness and hard luck runs into the millions annually, but, by virtue of the skill of these experts, it is greatly reduced.

The Life of Money

THE life of paper money is short, and during the time of circulation it runs the hazards of wear and tear. Finally the notes are sent back to the Treasury to be retired and replaced by fresh, crisp notes, which have just come from the Bureau of Printing and Engraving. At the Treasury more than a million dollars in these notes of various denominations are sent in daily for redemption. Before the money is consigned to the macerators that grind the distinctive notes into a pulp, it is counted, assorted and identified as bona fide. About one note in every million is a counterfeit. So the women counters must be ever vigilant—for if they pass a counterfeit and a good note is issued to the bank in its stead, the government requires them to make good its value out of their modest pay. Notes of all issues counted and assorted amounted to $2,140,180,797 during the fiscal year 1923. Not all of the notes sent in for redemption are retired, for about one in ten is found to be fit for use and returned to the banks of issue. The torn notes are carefully pasted together and segregated. Occasionally one of the notes of the early issues—the old "shin-plasters" or the Civil War note issues dating back to 1862—comes in for redemption. Before new money is issued in exchange for these ancient notes which enjoyed a free circulation sixty years ago, they are passed along to the experts for inspection, since artful counterfeiters were not idle even in the good old days.

The experts in the Treasury vouchsafe the information that there have been 778 different counterfeits brought to light, and in view of the fact that there have been 483 different issues of notes, with more than 100 different designs on their faces, it is not such an easy matter to know, at first blush, a legitimate note. While most of the counterfeits are easily detected by the inferiority of the engraving, the difference in the distinctive note paper, or some other variance from the "good" note, there has been at least one spurious note of the $20 denomination that would defy anything except the most expert and minute scrutiny. One of the Treasury experts candidly confessed that the $20 note would pass without question in nearly any bank in the country.

Note-Raisers' Heyday

JUST now the note-raisers, rather than the counterfeiters, are in their heyday. Most of the work is so crude, however, that it is readily detected. The numerals of the crooks superimposed on the smaller numbers are generally obtained by tearing off an end of a bona fide gold certificate or note and pasting these on the bills of lower value. A dexterous counterfeiter can split a note, separating the face from the back, without much difficulty, but happily the light-fingered gentry are generally not so meticulous and expert. A curious fact is that only the face of a note is deemed to have any value—what is on the back doesn't count.

The most pronounced weakness of the teller—if you will accept the view expressed by the experts—is his failure to associate the denomination of the bill with the portrait engraved upon it. It was with the motive of checking the bill-raisers that the Treasury prepared in 1923 its new designs for paper currency, so that the public might know that Washington's portrait appeared on the $1 bill, Lincoln's on the $5, Jackson's on the $10, Cleveland's on the $20, Grant's on the $50 and Franklin's on the $100 notes. When the public and bankers become edu-

cated to the simple means of determining the class and denomination of this new series, and the many designs and classes now in circulation are eliminated, the experts think the note-raisers will be checkmated.

There are joys and glooms in the lives of the redemption experts, for on many occasions their decisions spell happiness or sorrow for the unfortunates who have lost money. These experts have been able to put a city back on its feet. But, of course, there can be no guess-work. The regulations are strict and, in all cases, the verification must be absolutely without question. The fragments of currency must be of such size as to enable the experts to identify the damaged notes, as to kind and denomination, and if national bank or Federal Reserve notes, as to the bank of issue.

For in the formal words of the Treasury, the rules governing the redemption of paper currency are:

"United States notes, Treasury notes of 1890, fractional currency notes, gold certificates, silver certificates, national-bank notes, Federal Reserve notes, and Federal Reserve bank notes, when not mutilated so that less than three-fifths of the original proportions remain, will be redeemed at their face value in new currency. When mutilated so that less than three-fifths, but clearly more than two-fifths of the original proportions remain, are redeemable by the Treasurer only, at one-half the face value of the whole note or certificate. Fragments not clearly more than two-fifths are not redeemed, unless accompanied by the evidence required in paragraph 11.

"Fragments less than three-fifths are redeemed at the face value of the whole note, by the Treasurer only, when accompanied by an affidavit of the owner or other person having knowledge of the facts that the missing portions have been totally destroyed. The affidavit must state the cause and manner of mutilation, and must be subscribed and sworn to before an officer qualified to administer oaths, who must affix his official seal thereto, and the character of the affiant must be certified to be good by such officer or some one having an official seal. Signatures by mark (X) must be witnessed by two persons who can write, and who must give their places of residence. The Treasurer will exercise such discretion under this regulation as may seem to him needful to protect the United States from fraud. Blank forms for affidavits are not furnished. The department can not make reimbursement for currency totally destroyed."

After the money has been identified and paid by the Treasury, the expert must stand any loss which has been sustained by her mistake. Even the late Mrs. Amanda E. Brown, appointed by General Grant in 1875 and the first head of the division of mutilated money, had to make good for her own slip. During her forty-one years of service she had to refund twenty-five cents!

The Famous Mrs. Brown

MRS. BROWN, in the sphere of mutilated money, occupies just about the same place in the history of the Treasury Department as Alexander Hamilton does among the former Secretaries of the Treasury. At the time of her death she had earned the reputation of being one of the world's greatest experts in this highly specialized field. One of her principal understudies was Miss Bertha Sherfy, so when Mrs. Brown passed away her former aide became chief of the division, and for the past six years Miss Sherfy has been solving the puzzles of mangled money and discovering intrinsic value in what to the layman would seem to be worthless ruins. So great are the demands made upon the government for this expert aid that the chief has two other assistants—Mrs. Georgia Dorsey and Mrs. Bernice Melson—to pass upon the claims for mutilated money.

There is probably no position in the Federal Government which affords more interest and satisfaction than that of a mutilated-money expert, and there is seldom seen greater enthusiasm than evinced by these truly remarkable women.

And likewise there is probably no place in Washington where tradition is richer than in the Treasury, in whose corridors money counters handle a million dollars or more of currency every day and prepare the dirty, unfit money for retirement. To the writer an old wheelbarrow was pointed out which was in service when the chief of the division started to work in the self-same room forty-one years ago. The employees stick to their jobs for scores of years, and the visitor might observe many white-haired women counting the little bundles of bills and certifying the tallies.

Ruining a Million Dollars a Day

HERE also may be seen one of the most unique characters in the government service—a man who doesn't earn his pay of less than four dollars a day unless he ruins a million dollars of perfectly good money! Perched high on a stool in front of a busy machine may be observed a dusky individual, who takes piles of a hundred bills, one after the other, and punches four holes in each note. Before the money is sent to the macerators to be ground into a pulp, this step is taken in the process of cancellation. It is the darky's job to ruin the money.

Interesting Redemptions

AT the time of the great San Francisco fire, when so many of the safety vaults failed to keep the currency and securities safe from the withering flames, there was a vast amount of charred currency sent in to Washington. By virtue of expert knowledge and careful discrimination, Mrs. Brown and her assistants were able to replace the larger part of the money that was supposed to have been lost.

The most effective gesture of the high-rolling spendthrift desiring to proclaim to the more provident world his utter contempt for money has been to light cigars with yellow-backed bills. "Money to burn"—as they say. If the remorseful high-roller could prove that the money went up in flames accidently, and should preserve the burned remnants of the bill, the government's experts doubtless could identify it and issue a brand new note, of the same denomination, in redemption. But, if course, the Treasury will not redeem money when it has been destroyed purposely, as it does not place a premium on frivolous destruction of currency.

Not long ago there appeared at the Treasury a heart-broken, crest-fallen man, with a look of despair in his eyes and a smoke-besmirched money box clutched in his hands. He recited a pitiable tale. Although he had come to this country as an emigrant, by dint of hard work he had managed to save enough money to become a small contractor. On the day before a holiday, he had gone to the bank to draw out enough money to meet a large payroll for the workers, who were building houses under his direction. The money—$3,540 in all—represented practically the savings of all his years in America. Hiding it in a place of presumed safety in his home, he went to the hospital to visit his stricken wife. During his absence the house was swept by fire, and when he came back his gaze met only smoldering ruins.

The flames which had reduced the houses to ashes seemingly had licked up his whole fortune—for when he found the strong box, the yellow-backed bills had been burned to black crisps. With faint hope the foreigner turned to Washington as a last resort. After the experts had pasted the blacken fragments of the notes on the backing of waxed paper, the size of the complete bill—as is their custom in all cases—they managed to identify $2,900 of the burned money.

"Now I can live again," the grateful foreigner repeated over and over again, as he expressed his heartfelt thanks to these experts, who were transformed in his eyes to angels of mercy.

A Lifetime's Savings

RECENTLY an iron box, visibly warped by fire and blackened by smoke, arrived at the Treasury, along with a most pathetic letter. It was couched in the homely phrases of the Virginia backwoods and recited that the ashes and charred contents of the box once had been $1,800 in United States currency and represented the life savings of a couple, who had exceeded the ample span of years mentioned in the Holy Writ by nearly another half-score. The iron box had been secreted in the chimney where, with the protection of a few bricks, the old couple thought it would be safe from the fire that was kindled from the pine logs. However, upon opening the box, they found, to their extreme sorrow, that the yellow-backed bills had lost their color, the long crisp linen notes had been reduced to ashes, and there remained scarcely anything that might seem once to have been legal tender.

The case looked hopeless—even to the experts who had gone over thousands of previous exhibits—for ashes cannot be redeemed. Touched by the pathos of the letter and conscious of what an unfavorable report would mean to the old couple, the chief of the division worked laboriously to find enough particles among the ashes to warrant the issuance of good money for the seeming mass of carbon. A check for $600 was sent to the aged couple, who were thankful for even such partial restoration.

There is nothing very funny about the loss of money, any way you look at it. But occasionally there is a humorous twist, somewhat like the experience of the hunger-stricken tramp who spied a meal ticket on the sidewalk outside a restaurant. Just as his eager hands reached for it, a farmer, wearing hob-nailed shoes stepped on the meal ticket and punched out all of its value.

In this mutilated currency business there is a seasonal flow. In the spring when the farmers start plowing up their lands, the Treasury receives a number of dilapidated bills—notes which have inadvertently dropped from the pockets of the tillers of the soil and have been buried. A tidy sum is restored to the farmers, who turn up money as they turn over furrows.

The Valuable Pigs

JUST outside the office of the Treasurer of the United States in Washington, there is a glass case in which are exhibited sam-

ples of mutilated paper money to show just how adroitly and cleverly the experts work. In this case there is displayed a $5 bill with a legend explaining that it was partly consumed by a pig. The history of the case is that a Missouri farmer was leaning over a pen, feeding his swine. His purse slipped out of his pocket and fell among the pigs. Discovering his loss a few hours later, the farmer searched the pen and found his purse, but the bills had been devoured by the pigs. Inasmuch as the greenbacks, then resting somewhere in the innards of the swine, were worth more than the pigs, the farmer called in his neighbors, slaughtered the entire pen before nightfall and recovered the partially digested remains of the notes. The Treasury later sent him $300.

Perhaps one reason why the experts find such zest in their work is because they are informed of the circumstances surrounding the mutilation of the money. These cases are just laden with what we term "human interest." In the same glass case, for instance, there is another $5 bill, assembled from more than 100 pieces. An insane woman tore it to bits. There is a $10 greenback, which is yellow. It fell into a chemical, and the alkali turned it into a yellow-back. Another curiously wrecked bill shows what prolonged burial in a tin can will do to a perfectly good $10 bill.

Believe It or Not!

ONE simply cannot believe one's eyes about money. The writer was shown a dollar bill that was not more than five inches long, while another was fully nine inches long—and the expert stated that both were bona fide. It seems that the undersized bill fell into lye and was shrunken by the acid. The nine-inch bill, the longest dollar in captivity, had fallen under a steel roller and was elongated to this extent.

It seems that mutilated money is invariably linked with the tragedies of the world, for the figures in these disasters generally have money upon their person. Shell-torn American money was found on the fallen doughboys in France; from far-off Japan scorched bills are being presented for redemption; the experts have identified currency carried by the crew of the ill-fated *Roma* when the dirigible was consumed by flames; a charred bill-fold, containing a large sum of money, found upon the burned corpse of a fire-victim, was presented recently at the Treasury and hundreds of dollars redeemed.

Two bushels of ashes, scraped from the ruins of a burned house in Tango, West Virginia, were shipped to Washington, accompanied by the request that they be analyzed to disclose about a hundred dollars that had been in the residence at the time of the fire. No trace of the money was found, however.

While every application for the redemption of mutilated currency must be accompanied by an affidavit, setting forth a truthful story of how the loss was sustained, the recitals frequently fail to come within the range of "the truth, the whole truth and nothing but the truth." Not long ago, a mass of fine particles of a bill was received. The affidavit recited that rats had eaten the bill, which was of the $10 denomination. The experts, in pasting the pieces on waxed paper, recognized finger-nail prints and failed to observe the tell-tale gnawing by the fine teeth of rodents. The bill was readily recognized as a one dollar bill. The evidence was forwarded to the secret service.

How the Experts Work

THE method by which the experts determine just what part of the money remains is unique. A piece of isinglass, exactly the size of a bill, is divided into forty squares. This glass is placed over the remaining parts of the mutilated note, the pieces having been mounted on paper, overlaid with a thin waxed sheet. If the remnants fill twenty-four of the squares—three-fifths of the note—the Treasury redeems at face value; if more than sixteen and less than twenty-four squares are filled, half value is given. The regulations declare that any part of a bill, less than two-fifths, is not redeemable, unless proof is submitted showing that the other three-fifths were destroyed.

The government throws every safeguard around the restoration of its currency. The falsifiers have little chance of profiting from their seemingly well-laid plans for fraud, because a careful record is kept of the number, denomination and bank of issue of each bill redeemed.

Not long ago one end of a $10 note was presented at the Treasury with an affidavit recounting that the other part had been destroyed by fire, only quick work by the owner preventing the destruction of the bill. Within a few days the maker of this affidavit was interviewed by an agent of the secret service and later indicted for seeking to defraud the government. For upon receipt of the claim, the experts opened up the file, in which records are kept of all partial bills redeemed, and found that the missing part of the $10 bill had been redeemed four years previously.

A Federal Reserve bank recently requested the Treasury to cast a vigilant eye on the notes of a certain issue, because it had been presented with an unusually large number of notes with the ends missing. Knowing that the Treasury replaces without question notes when less than two-fifths were missing, the bank did not hesitate to hand over new notes for the torn bills. In due time the ends of the mutilated notes were sent in to the Treasury with claims for the face value on the grounds that the rest of the currency had been destroyed. Evidence was readily obtained showing that an employee of the bank had been tearing off the ends of the notes in the hope of redeeming them by swearing the rest of the bills had been burnt up.

While the majority of the affidavits which accompany the claims are truthful, some of the affiants are surprisingly economical in the use of the truth.

Liberty Bond Losses

CLAIMS on account of losses or destruction of all government bonds and other interest bearing securities have increased since the war-time urge made almost every American a Liberty Bond owner. Seven years ago one amazingly capable woman—Miss R. L. Lindsey—handled all of the caveat work. Today she is the manager of the Claims Section, which deals with the mishaps of bond-holders, and there are about 135 employees working under her direction.

While the Treasury will not consider claims for money which has met with total destruction, it will issue duplicates of interest-bearing bonds when it appears "by clear and unequivocal proof" that the bond has been destroyed. However, the government requires the person obtaining relief to give a bond of indemnity, so that it may be fully protected should the original bond ever be presented. As might readily be imagined, the greatest number of appeals for relief comes from those who have lost their Liberty Bonds or have had them stolen. To this class the government can give no comfort unless the securities are in registered form, for United States bonds and notes in coupon form are payable to bearer, and thus the Treasury has no antidote for these misfortunes.

In assembling the charred parts of a Liberty bond or patching together the mutilated portions of a Federal interest-bearing security, the work of the same expert eye, so much in evidence in the examination of money, is to be observed in this section also. The same heart-throbs beat through the recitals of the misfortunes. The chief expert, Mrs. Josephine E. Yarbrough, a soft-voiced woman of the old school, will admit that she "just loves" her work, for all the little quirks of human nature crop up in it. While the Liberty bonds are but a few years old, there are about 150 active issues of interest-bearing securities whose characteristics the experts must know.

There are—if you will accept the word of the Treasury Actuary—8000 misers in the United States. Recently the claims section uncovered a queer little case, in which the pique of an old recluse nearly deprived his heirs of a neat fortune. It all came to light when a batch of weather-beaten bonds of an old issue, in a decrepit condition after their long hiding, were sent in for redemption.

The Secretive Recluse

IT seems that the old recluse, at outs with his family, was known to have had a fortune secreted away somewhere. To his dying day he refused to tell any of his relatives where it was hidden. After his death, his heirs ransacked the little New Hampshire farmhouse, searching for the supposed fortune, but the quest was in vain. Years later when the structure was being demolished, the house wreckers found a tin box in a cleft in the chimney. Upon opening it they discovered the remains of fourteen bonds hidden forty-five years previously. When identified by the Treasury experts, duplicates were issued.

A dirigible balloon running wild afforded the bond expert many hours of work. The dirigible, starting from a field in Ohio, got out of control and crashed through the roof of a Chicago bank, killing several workers and setting fire to the building. A bundle of Liberty bonds was ignited and almost wholly destroyed. What remained of the Liberties was sent along to Washington; 58 of the 95 were identified so positively that duplicates were issued without requiring an indemnity bond, while the bank's claim for the others was allowed in full.

A WHOLE town was helped by the bond and mutilated-money experts of the Treasury a few years ago, when the city

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What Chance Has the Farm Child?

By C. B. SHERMAN

To Those Who Think Farm Life Means a Checkered Career the Achievements Credited to Two Obscure Communities Make an Eloquent Answer. The United States Government Has a Department Devoted to Finding Benefits of Farm Life.

FOR the greater part of two decades the nation has heard, in season and out, of the drawbacks, limitations and tragedies of rural life. The farmer and the farmer's family have been pictured as the helpless victims of a hopeless system. Farm life unquestionably has its very real and very vital problems, but "searching out the defects of country life has now gone far beyond the point of usefulness," says Charles J. Galpin of the Division of Farm Population and Rural Life, in the United States Department of Agriculture. "It is time we point out the good things of country life and encourage them to grow and multiply. No more powerful stimulus could come to rural social development than such encouragement conducted on national lines."

Doctor Galpin affirms that his optimism has a strong foundation, based on a study of the past achievement of our country-bred forbears. He does not fail to recognize distressing present rural facts, but he sees among these facts sure clues to better days. Even in remote places echoes of Doctor Galpin's call to hopeful optimism may be clearly discerned, and even in remote places can we find the clues on which he bases his faith in the future.

Down in Texas W. E. Garnett, head of the State Department of Rural Social Science, is pointing out the best examples of rural social institutions, organizations and enterprises in that great state. The agricultural press, farm and civic associations is helping him to compile a carefully selected list. From this list outstanding examples are chosen for first-hand study of methods of accomplishment, that other communities may learn the way.

Louisiana is another state which has a study of outstanding community enterprises under way; Arkansas is another. Illinois, New Jersey, Virginia and the state of Washington are furthering localized studies of best rural institutions. All of these studies are designed to be constructive in character, furnishing a method of erecting standards of institutions.

Rise of 100 Negro Farmers

OF special significance are the studies made by Hampton Institute of the best negro rural institutions in Tidewater Maryland and Virginia. The communities of Ebenezer, Ruthville and Little Forks, have been studied and the results published. Allen B. Doggett is working with the Federal Government to make the results of this study a real incentive to the members of that race. In Tennessee Thomas Caruthers of Fisk University is analyzing the story of the rise of the best 100 negro farmers in the state in an attempt to bring the biography of the successful ones to furnish concrete and living examples as incentives to other negro farmers.

Supplementing the more localized studies, the Department of Agriculture has published fully illustrated accounts of some of the best examples of rural planning to be found throughout the United States, including community houses, recreation places and rural village planning as a whole. Now a study of rural hospitals is under way.

We have heard much of the migration of farm folk to other industries and to the cities. Doctor Galpin recognizes fully the evils attendant upon over-migration and warns against them, teaching that the safeguard against it is an economic matter. At the same time he paints another and vivid picture of migration. All the world knows Gopher Prairie of *Main Street* fame, its sordity and its narrowness. Five hundred pages were devoted to its aridity. Over against it Dr. Galpin sets a slim fifty-paged pamphlet on the national influence of a single farm community studied by Emily Hoag for the National Department of Agriculture.

Farm Life Achievements

WHY talk so much about the defects of farm life? Perhaps we may yet come to believe there is something in the nature of a "blessing-in-disguise" attached to them.

For the farm with all its much-discussed drawbacks, and farm-life, with all its hard work, has always produced men and women who have done big things in the towns.

Would the farm boy, bred to hard work and responsibility have developed the same ability had he missed the farm training?

The U. S. Department of Agriculture has a division that is looking into farm life to see the things that are not defects. The accompanying article tells about the work of that division particularly about two hamlets whence came wonderful groups of successful men and women.

From Two Hamlets

BELLEVILLE, N. Y., is an agricultural village of about 500 people. From Belleville came the architect who planned the grounds and buildings for the World's Fair at Chicago and the rebuilding of San Francisco after the earthquake; he founded the American School of Architecture at Rome, Italy, and was head of three national architectural commissions. From Belleville came the founder of the rescue missions for girls, found in all parts of this country, in France, Mexico, China and Japan. From Belleville came a famous evangelist, whose influence was felt throughout the country, who is said to have inspired the founding of the Salvation Army, and who was for years president of Oberlin College. Another son of Belleville founded nine educational institutions of standing in seven states. Authors, editors, manufacturers, an inventor, a United States Senator and many educators were among its citizens. Belleville furnished a state superintendent of schools for Ohio, a judge of the State Supreme Court for thirty years from Wisconsin, and state governors for Ohio and Minnesota.

At the time that Belleville was sending out workers for the national welfare, it was retaining on its home farms a sturdy stock of educated young people. Old names, outstanding in the early history of the place, are still in the farm homes, some of which have been occupied by the same families for many generations.

French Creek's Contribution

WEST VIRGINIA contributes as thrilling a story of the little highland community of French Creek. State investigators have analyzed this community systematically, primarily in an attempt to find what social factors are of first importance in the development of rural community life. The study shows that this little farm neighborhood, with a radius of two and a half miles, has furnished 203 teachers, including several university professors, one university president, 29 music teachers, 3 well-known natural scientists, 23 physicians, 15 ministers, 6 missionaries to foreign countries, 17 commissioned army officers, and 40 district, county and state officers, including a Governor of the state. It has been demonstrated that at least 143 other communities have been directly influenced by this hill country neighborhood.

Statistics show that the average American farmer today can feed nearly 50 per cent

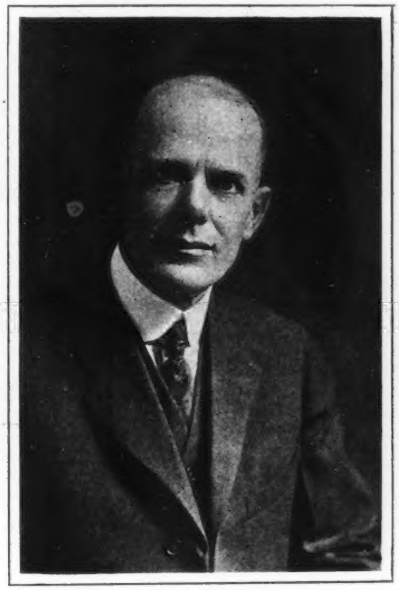
Thomas D. Brabson, president, Tennessee Bankers Association

more people than his father could. That speaks well for our progress in science, methods and equipment of agriculture. Future improvement will mean releasing still more men to enrich the lives of other communities. For migration is a normal condition of farm life. The farms are likened to the seed-beds of the nation. As long as agriculture continues to improve in efficiency the farm will have young people to spare for other industries. But it must always retain a good supply of strong young bodies, trained and resourceful young minds to keep these seed-beds and their great contributions, both human and material, fully up to normal. It is in the interest of the entire nation that this be made possible. Systematic study of migrations by regions and by age-groups, and studies of farm standards of living, are gradually giving reliable data on a vital subject, the knowledge of which has heretofore been based on guesswork.

There Is Improvement

THAT farmers know just what they want in the way of rural social advancement is brought out in the testimony of A. B. Genung, agricultural economist, who, through the Department of Agriculture, publishes regularly a bird's-eye view of the agricultural situation. He says: "While these have not been good times for the individual farmers, the community has been making steady progress. Men are forced to rigid economy on their own farms; but they travel over better roads, send their children to better schools, have better public buildings to use, live in closer touch with affairs, get better medical assistance, take better care of the orphans and the aged, than in pre-war days. Physical equipment on the farm is scarcely being maintained. Physical equipment belonging to the community has been notably improved."

That these and many other factors are producing beneficial results is shown in 94 per cent of the replies to the 7000 letters sent to the western periodical, *The Farmer's Wife,* last year, in answer to the question, "Do you want your daughter to marry a farmer?" which answered "yes."



E. B. Harshaw, president, Pennsylvania Bankers Association

To those who had worked among the voluminous papers of the Country Life Commission some fifteen years ago, and with the hundreds of farm women's letters of a later date, published by D. F. Houston, then Secretary of Agriculture, these later letters brought distinct surprise. Closer family unity, opportunity for more home life, space for indoor and outdoor living, kinship with growing things, absence of deteriorating influences, identification with work of primary importance, were among the reasons given in favor of farm life over and over again. In many cases the writers had lived in both city and country and knew at first hand the advantages and disadvantages of both.

Past Trials Figure

"THEIRS is an optimism, not blindly buoyant, not oblivious to the trials of the past, the difficulties of the present, nor the problems of the future," wrote one of the judges of the letters, Mrs. Vera Schuttler, chairman of the Farm Woman's Committee of the American Farm Bureau Federation. "The trials of the past, surmounted, have entered into their lives as strength; the difficulties of the present are whetstones to add keenness to living; the problems of the future are a challenge to an even fuller life."

M. R. Sturtevant, president, Missouri Bankers Association

J. S. Kennedy, president, Georgia Bankers Association

To a large extent these nation-wide activities to stimulate the best in rural life, have their inception in Doctor Galpin's little group of workers in the Department of Agriculture.

Was Roosevelt's Idea to Create Division

THE Division of Farm Population and Rural Life in the United States Department of Agriculture is to a great extent a fulfillment of Theodore Roosevelts's desire for a Federal Government unit to study the needs of country life. The division was established under the authority of D. F. Houston, and the recommendations of a committee of 28 rural social workers and students of farm life from all over the country formed the basis of the outline of work to be undertaken. The policy of the division is to seek cooperation in research projects and to make investigations with other responsible research agencies as a means of accumulating a body of scientific knowledge on the problems of farm population and rural life, rather than to carry on independent researches.

Knowing the farm population of a state in detail, as the animal husbandry department of a state college knows the cattle of a state, is an ideal none too high for those responsible for the social problem of the farm population. Such an ideal means study, research, investigation. It means acquaintance with the group-life of farmers, with their institutions, homes, standards and facilities. And such acquaintance is not yet in books.

Thus at the same time that work of encouragement is being widely prosecuted through local agencies, a foundation is being laid for systematic, scientific work needed in this field.

Income Yield from Property Managed by Trust Companies

By L. H. ROSEBERRY

Chairman, Committee on Research, Trust Company Section, A. B. A. and Vice-President Security Trust and Savings Bank, Los Angeles, California

After Deducting Administration Fees Trust Companies Are Earning and Paying to Beneficiaries Incomes Which Compare Favorably with the Gross Interest Return on High Grade Investments. National Average Shown tc be 5.513 Per Cent.

THE Committee on Research created by the Trust Company Division of the American Bankers Association conceived the idea that the public is concerned in three major questions regarding corporate fiduciary service, and it has set out to find their answer. These three major requirements may be summarized as follows:

1. The safety of property committed to the management of a corporate trustee or executor. This is doubtless the first and most important concern in the mind of every customer who patronizes a corporate trustee. He or she requires, above all else, that the property intrusted to such a trustee is reasonably safe and will eventually pass to the beneficiaries for whom it is intended to ultimately provide. As shown in the committee's second questionnaire, there is such assurance, since, with one trivial exception, there was no case disclosed on the public records of any of the states where the beneficiary of any trust administered by a trust company had suffered the loss of a single dollar for which such trustee was legally liable.

2. The assurance to the beneficiaries of such trusts of a reasonable income, this income to be fairly constant and to equal the current rates of interest on conservative investments.

Only second in importance in the minds of all trustors is the thought of how much income will the trust company be able to earn for their dependents. The third questionnaire, discussed more at length hereafter, pursued this investigation intensively. Here again results are most interesting.

3. A stipulated fee for administration, either fixed by law or by written agreement, enabling all interested parties to know in advance approximately the full cost of all services of the corporate executor or trustee. The amount of the cost of trust service has a direct bearing upon the question of the net yield of income to the beneficiary. The public desires conviction on the definiteness and amount of trust company costs. It wishes to know in advance with some certainty what these costs will be, and whether or not there will be any indirect fees, secret profits or extra charges not disclosed on the surface at the time of the creation of the trust. The committee shortly will approach this subject as its next objective.

To develop the second major requirement for a satisfactory trustee, viz.: The assurance of a reasonable income to the beneficiary of trust property, the committee propounded four questions to 325 representative trust companies scattered throughout each of the 48 states and one territory in America. For the purpose of summarization and analysis these were classified into six natural sections, grouped as follows:

Northeastern Section—Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont; Southeastern Section—Alabama, Florida, Georgia, Kentucky, North Carolina, South Carolina, Tennessee, Virginia, West Virginia.

Northern Central Section—Illinois, Indiana, Iowa, Michigan, Minnesota, Nebraska, North Dakota, South Dakota, Wisconsin; Southern Central Section—Arkansas, Kansas, Louisiana, Mississippi, Missouri, Oklahoma, Texas.

Northwestern Section—Idaho, Oregon, Montana, Washington, Wyoming; Southwestern Section—Arizona, California, Colorado, Nevada, New Mexico, Utah. Hawaii.

THE committee next propounded these four carefully prepared questions:

1. What is the average annual net rate of interest which you are securing for the beneficiaries of your private trusts, from investments made by your company, based on the principal of such trust investments as carried on your books? (By private trusts is meant those commonly known and designated as voluntary or living trusts.)

2. What is the average annual net rate of interest which you are securing for the beneficiaries of trusts created under the wills of deceased persons, from investments made by your company, based on the principal of such trust investments as carried on your books?

3. In the absence of specific instruction regarding investments in the trust instrument, what class of securities does your company select for investment of its trust funds, and are such securities prescribed by law?

4. Unless specifically directed so to do in the trust instrument, does your company, on its own initiative, ever invest trust funds in stocks of corporations, and if so why, under what circumstances, and with what results?

After the replies were compiled they disclosed that the comparative average net annual returns on trust funds invested by corporate trustees and paid to the beneficiaries of their respective trusts were as follows:

	Private Trusts Per cent	Court Trusts Per cent
Northeastern Section	5.233	5.309
Southeastern Section	5.814	5.777
Northern Central Section.	5.419	5.388
Southern Central Section.	5.760	5.474
Northwestern Section	5.681	5.488
Southwestern Section	6.079	5.992

After Fees Are Deducted

IT is interesting to note the striking similarity of the average net return to the beneficiaries of trusts which was earned by trust companies all over the country. There is an extreme average difference of approximately only ¾ of 1 per cent per year between the highest and the lowest net yield on investments made by corporate trustees in different parts of the country. The net interest yield is quite equal to the average annual interest rate on conservative investments in the respective localities reporting. They show, in truth, that American trust companies are earning and paying to the beneficiaries of their trusts, after deducting their own fees and all other expenses of administration, an annual income fairly comparable with the gross interest return on high grade conservative investments in the various sections of this country. Isolated replies disclosed both lower and higher net returns on their trusts, but the average is quite satisfactory. The nation-wide average annual net return to beneficiaries of voluntary trusts was found to be 5.512 per cent. This result was based upon 282 replies coming from every state in the Union. The nation-wide average annual net return to the beneficiaries of testamentary trusts (e. g., trusts created under wills of deceased persons) from investments made by corporate trustees was found to be 5.420 per cent. This showing was based upon 301 widely scattered returns.

As was expected, there was a wide variation in the answers to the committee's third question. In general, however, the replies disclosed that in the absence of specific instructions in the trust instrument regarding investments, it is the general rule of American trust companies to purchase only securities which are legal for trust investments; such as first mortgages on real property, all classes of government, state, county, city

and other public bonds, railroad and public utility securities, joint stock land bank and Federal land bank bonds, etc.

Guides in Making Investments

IT appeared that in practically every section of the country the laws prescribe in one form or another securities and property which are legal investments for trust funds of all kinds. Out of 193 reporting companies 78 answered that they selected for their trust investments only those securities which were legal for trust funds. Sixty stated they confined their trust investments to mortgages and bonds which were first liens upon real property. The remainder scattered their investments through other types of public utility bonds, government, state, county and municipal securities. Often low interest yielding non-taxable securities were purchased to effect reduction in income and personal property taxes. In other instances companies were guided in their investments by the needs of the beneficiary and sought as high an interest rate as they thought reasonably safe. Only one or two companies reported that they voluntarily invested in common or preferred stocks of corporations, and then only when such stocks were high grade and well seasoned.

To the fourth question, 289 trust companies out of 321 reporting (about 93 per cent), replied that they never purchased stock in corporations unless specifically directed so to do by the trust instrument or by someone having the absolute right under the terms of the trust to direct such investments. The remainder of the companies stated that they occasionally invested in the highest grade preferred stocks or bank or guaranteed stocks or took up subscription rights to stock already in the trust estate when this was admittedly to the advantage of the trust. Apparently only one state, New Hampshire, expressly permits the investments of trust funds in certain classes of preferred stocks.

Not a single case was reported where a loss had occurred or other embarrassment faced through the investment of trust funds in stocks of corporations in the few instances reported. The fact, however, that practically all trust companies everywhere shun such investments is indicative of their care and discrimination in seeking only the safest securities with assured interest yield for their trust funds.

Greatest Diversity in Investments

THE companies in the Northeastern group of states sent in the greatest variety of replies indicating that their investments are scattered among the largest class of securities, and that their annual net interest return is the most divergent. Those companies located in the Southwestern group of states made strikingly similar returns. The net interest yield on their trust investments is fairly uniform and their securities confined almost wholly to those prescribed by law.

The replies in detail presented a most interesting study. Several valuable deductions may be drawn from them. Among others there seems to be too wide a divergence in the selection of securities for trust investments, even allowing for differing local conditions and laws governing the investment of trust funds. There appears to be room for a greater standardization in high grade well seasoned securities which would simplify the selection and insure greater stability of interest returns. This would be relative, however, for there are always bound to be many exceptions and objections to such a plan. Each section may offer an inviting class of securities not readily available in another. The law in one state may not prescribe the same trust investments as in another. The interest return on one grade of satisfactory securities in one area may be higher than in another, etc. Yet with possibly numerous local exceptions there would seem to be room for a greater standardization of trust investments, even on a national scale. This in turn would have an immediate reaction upon the net annual interest yield to the beneficiaries of these trusts. A very wholesome thing, however, was clearly disclosed, namely, that American trust companies shun speculative securities, seek out only well seasoned high grade and secured investments, carefully avoid risky loans which attract the unwary and inexperienced by an unduly high rate of interest, and eliminate corporate stocks for the reason that often a potential stockholders' liability is faced with rarely a definite assurance of a fixed dividend.

On the whole the survey reflects most creditably upon American trust company service. It establishes conclusively the second major requirement of the public for corporate fiduciary service, viz.: that the beneficiaries of their trusts are assured of a reasonable income, this income to be equal to current rates of interest on conservative investments. It also shows that these companies are employing their trust funds in only the best and most seasoned investments available in their respective states; and that they uniformly choose "legal" securities where that is permissible, all of which probably reveals why their record for losses is practically negligible.

So far as is known, there are not available any comparable statistics from investments made by private trustees, but it is safe to say that if there were, the superiority of corporate trust service over individual trust service in this respect would be equally as conclusive as when other basic comparisons are made.

The results of the survey are indeed a high compliment to the efficiency and desirability of corporate fiduciary service. The second great point has been proved in the case of the American trust companies which is now pending before the people of this country. The committee will shortly take steps to establish the third and final requirement for ideal trust service, viz.: the stipulation or fixing in advance of the total cost of the service of a corporate executor or trustee. When and if this is satisfactorily done we feel that the standing of these companies will become firmly established before the public, and that they will receive an impetus to their growth which will be more potent and lasting than ever before experienced.

Putting Life in Dead Money

(*Continued from page 27*)

of Astoria, Ore., was swept by a devastating fire. The president of the principal bank came to Washington, with the charred contents of safes and strong-boxes containing the money and securities of the city. Recognizing the urgency of the situation, the Treasury directed the experts to give their undivided attention to the claims. Although scarcely a trace of white was discernible on the face of the bonds and the greenbacks were toasted to blacks and deep browns, the experts never missed a single number on the $60,000 in bonds, while currency to the value of $50,000 was identified and replaced. This $110,000 did much toward the rebuilding of the western city.

In 1918 the largest bank in Mariana, Ark., suffered a similar fate. The Treasury authorized the restitution of $5,729 in money and $56,530 in bonds and notes, after the damaged currency and securities had been examined closely.

Mutilated money comes to the Treasury in bizarre containers at times. There is an exhibit on Miss Sherfy's desk which is referred to as "King Tut's strongbox." A housewife in Ohio deposited $59 in a drinking glass and placed it in the cupboard. Her house was burned down. The intense heat of the flames melted the glass around the money, so when the appeal was made to the Treasury for the replacement of the money, which was hermetically sealed within this tomb, the experts had to break the walls of glass and dig out the notes and bills.

The Bomb Scare

A SHORT while after the great bomb explosion outside Morgan's bank on Wall Street had thrown the financial district of New York into a panic, the Department received a six-inch pipe that answered the description of the death-dealing container. Although the letter accompanying the queer bond depository recounted that the owner had secreted the Liberty Bond within it before the pipe had been in a terrible fire, the Treasury thought it the part of wisdom to call in the Federal bomb expert to be sure that some crank had not selected the government's money center for the site of his next dastardly deed. It proved to be a harmless contrivance, and sure enough inside was a Liberty Bond somewhat the worse for wear but nevertheless recognizable.

In making such minute examinations and orienting the small pieces of bills in their proper places, one might expect to see the experts equipped with the most powerful magnifying glasses, but Miss Sherfy uses nothing to amplify her natural vision. The instruments are the simplest—a knife, a bottle of mucilage, a few waxed sheets of paper, and, if needed, a little steaming water.

It is truly a case where the brains behind the tools tell the whole story.

Interests closely identified with the North-Western Trust & Savings Bank have purchased a controlling interest in the Keystone Trust & Savings Bank, of Chicago. Walter J. Raymer, president of the Fullerton State Bank and until recently western manager of the American Pin Company, has been elected President of the Keystone Trust & Savings Bank.

The Condition of Business

Recession in Business Affects Trade as Well as Industry, Although Bank Clearings Remain High. Drastic Decline in Iron and Steel. Securities Up Sharply as Money Rates Fall to Lowest Levels Since 1917. Smaller Crops Forecast. The Gold Shipments.

IN June there was increasing evidence that the recession in business which in April and May had affected chiefly industrial lines was extending also to other phases of business activity.

Continued declines in May in many basic lines of production, notably in the iron, steel and textile industries, were reflected in a further decrease of 10 per cent in the Federal Reserve Board's composite index of production, which was at a point about 18 per cent below the peak reached a year previous. Factory employment declined to a level 11 per cent lower than a year ago. Railroad shipments of all kinds in May and the first two weeks of June continued lower than last year, and wholesale trade throughout the country was also smaller, due chiefly to decreased sales of dry goods, shoes and hardware. Retail sales at department stores declined more than usual during May and except in San Francisco and Minneapolis districts were smaller than last year, and mail order sales were also smaller. Wholesale prices, as measured by the Department of Labor's index, declined 1 per cent during May to a level about 8 per cent below the high point of last year, and in the first three weeks of June the downward tendency continued.

Notwithstanding the large decline in production and certain phases of distribution, the volume of checks passing through the banks in centers outside New York City remained above the level which might be considered normal in view of the experience of past years, while in New York City there was a substantial rise in clearings, probably due in part to greater activity and strength in the security markets.

Iron and Steel Slump

THE feature of the recent industrial situation has been the sharp curtailment of activity in the iron and steel industry. During the first three months of the year steel mill operations advanced to over 90 per cent of capacity and output was close to the highest records. This high rate of activity reflected chiefly the increased demands for railway equipment and supplies, for building construction and automobile materials, and for pipes and tanks for the water, gas and oil industries. When these great consumers had covered their immediate needs, new buying fell off and production was drastically reduced. Steel ingot output declined to about 45 per cent of capacity, but new buying declined even more rapidly and the unfilled orders of the United States Steel Corporation at the end of May were the smallest in nearly ten years. A net loss of 46 active pig iron blast furnaces in May made a total loss in two months of 86 stacks, the sharpest decline since the depression period of 1921, and the 188 furnaces in operation at the beginning of June were only 45 per cent of the total number of furnaces.

In a recent study the Cleveland Trust Company found that taking good times and bad over the last thirty years, the average proportion of blast furnaces in operation has been 60 per cent. The periods when a greater proportion of the furnaces were producing have been times of active and prosperous business, while the months during which fewer than 60 per cent of the furnaces were in blast have been in periods of depression or slow business.

During June there was no material change in the proportion of active furnaces, and authorities in the trade foresaw a continuation of existing conditions for some months to come.

Cautious Inventory Policy

DURING the past year business economists and others have frequently pointed out that manufacturers as well as wholesale and retail dealers were generally pursuing a very conservative policy with regard to inventories and forward commitments. At the peak of the industrial expansion in 1923 and 1924 the steel industry was operating close to record levels, yet the volume of unfilled orders was much smaller than in 1920. The textile industry has cut down its production drastically rather than take the risk of an unknown demand, since dealers in turn were generally buying only for immediate needs. In the New York district, for example, stocks of goods on hand at department stores on June 1 were only 2 per cent larger than a year previous, compared with an increase of 5 per cent in each of the previous four months, and an average increase of 10 per cent in the months from September to January. A reflection of this policy is apparently found in the fact that railway shipments of merchandise and less than carload freight have held well above last year.

The underlying causes for this attitude are set forth in a recent publication of the National City Bank of New York.

"Neither producers nor dealers wish to accumulate stocks when the outlook appears to be for slackening demand and falling prices. The first impulse is to work off stocks. This is a general rule but its observance has been more marked since the great slump of 1920-21 and the heavy losses upon inventories then experienced. Whenever a slackening tendency is generally noted an alarm is sounded and the process of reducing stocks follows as a matter of course. It is one of the results of the disturbed conditions prevailing for now ten years that the business world is more sensitive to indicated changes than formerly. It takes to cover more hurriedly."

Money Rates Fall

THE easing in money conditions which developed in May became more pronounced in June, and rates generally declined to the lowest levels since 1917. Factors which contributed to the decline included a further reduction in industrial and commercial demands for credit, and imports of gold averaging over a million dollars a day.

The open market rate for prime commercial paper declined from 4¼ per cent to 3½ per cent, and a good volume of sales was made at 3¼ per cent both in the New York market and in the interior. Accompanying the contraction in commercial borrowing at banks, there was a further decline in the volume of commercial paper outstanding. In the bill market rates declined an additional 1 per cent, to 2⅛ per cent on purchases by dealers and 2 per cent on their sales, the lowest since the bill market was established in this country. Dealers' portfolios of bills at the end of June were close to the low point for the year, as a result of the active demand for bills and the limited supply.

The recent declines have brought money rates in New York to a level lower than in London for the first time in recent years at least. It seems possible that this situation if maintained may have considerable bearing on the proportion of foreign financing done in this market.

During June the discount rates at the Federal Reserve Banks of Cleveland, Richmond, Atlanta, Chicago, St. Louis and San Francisco were reduced from 4½ to 4 per cent, and the rates at Boston, New York and Philadelphia were reduced to 3½ per cent.

Advance in Bond Prices

ONE effect of the easing in money conditions in June was to stimulate trading in outstanding bonds and to increase the volume of new financing. Prices in most parts of the bond market rose sharply. All active United States Government issues except the 3½s reached prices higher than ever before at levels 1½ to 5½ points above par. Representative averages of domestic corporation bonds were about 3½ points higher than at the beginning of the year, and there were also advances in foreign issues, which heretofore this year had been little changed.

Yields on outstanding Government short term securities declined an additional ¾ to 1 per cent, and the June offering of $150,000,000 six months' Treasury certificates bearing interest at 2¾ per cent, or 1¼ per cent lower than the last six months' issue sold in December, was heavily oversubscribed. In other classes of securities new offerings aggregated more than half a billion dollars in the five weeks ended June 28, the largest volume of new financing since January, 1923, excepting only February of this year.

Stocks Advance

TRADING in the stock market also became more active in June, and prices tended upward, particularly among railroad

(*Continued on page* 60)

Preparing a Federal Reserve Review of Credit and Business

By W. RANDOLPH BURGESS
Assistant Federal Reserve Agent, Federal Reserve Bank of New York

Condition of Business is Composite Photograph of a Million Interviews. Securing Figures is Only One Step as Analysis of Statistics Is More Important. Intelligent Investor No Longer Eager for "Tips". Captains of Industry Not Omniscient.

THE Federal Reserve agent of each of the twelve Reserve Banks publishes a monthly review of credit and business conditions. These reviews had their origin in the provision of the Federal Reserve Act that each agent should make regular reports to the Reserve Board. In accordance with this provision, the Board asked the agents to prepare monthly letters reviewing business and credit conditions in the several districts. Then member banks and others who were asked to furnish information for the letters soon began to request copies and the reports gradually passed from informal letters to mimeographed, and then during 1919, 1920 and 1921 to printed reports. The circulation has rapidly increased to approximately 200,000 copies, and the reviews are distributed by member banks to their customers, as well as directly by the Reserve Banks.

The rapidity with which the circulation of these reviews has grown and their evident popularity make desirable some account of the way they are written, what sources they draw upon, and what purposes they serve.

The Mythical "Man Who Knows"

THE days of belief in the "tip" are passing in the stock market; the intelligent investor no longer seizes eagerly upon the information that somebody's friend heard from the wife of one of the directors of the company that Pirate Oil was going up. But in the field of business there are still many who believe that all truth would be revealed if they could touch the hem of the garment of the mythical individual who has his finger on the pulse of busines.. The disconcerting discovery which anybody who tries to write a business review makes is that there does not exist any secret reservoir of knowledge which the writer may tap to secure revelations of truth. He discovers that the "man who knows" is a purely mythical person. He finds by bitter experience that the great captains of industry are not infrequently quite uninformed as to the broader tendencies in business and finance. Certain industrial leaders make it a policy always to give out optimistic interviews, and their utterances are, therefore, of little value. But more generally the man in active business is limited in knowledge to his own branch of his own particular industry; and the experience of any particular concern is seldom fully typical of an industry and still more rarely presents a picture of business as a whole with its diverse trends and counter trends.

The editorial staff of the Monthly Review of the New York bank used to telephone to or visit each month representatives of a score of the most prominent import and export houses to discover the latest tendencies in foreign trade. The practice has been largely discontinued, because a thorough-going comparison of the opinions of the trade with the actual export and import figures as they later appeared made it clear that the opinions were of little value as an indication of the tendencies of trade.

One might gave many examples to indicate that he who would write a business review cannot rely for his knowledge on the opinions of the omniscient few. There are, it is true, many shrewd observers in the business field whose opinions are of value, but these men form their opinions on much the same basis of published fact as is available to any careful student. There is no inner holy of holies with a presiding High Priest to whom all truth is known. The road to knowledge is in sight of all.

Served by the World

THE fact is that the business review draws its knowledge from a thousand different sources, just as does the daily newspaper. In the past ten years there has been built up a body of data on business and finance, which is made currently available through the cooperation of thousands of individuals.

When the editors of the Monthly Review of the New York bank, for example, sit down to write their review, they have before them summarized experience for the past month from sources somewhat as follows:

12	Federal Reserve Banks
750	Member banks—about one-half of the country's banking resources
900	Savings banks
1,000	Brokers, exchange houses, commercial paper dealers, etc.
10,000	Producers of goods
300	Department stores in 100 cities
25,000	Chain stores
1,600	Wholesale dealers throughout the country
50,000	Builders
200	Railroads
3,000,000	Wage earners
	and many others.

These figures are in many cases very rough approximations of the numbers of concerns and individuals whose reports are included in available statistics, but they illustrate fairly the range of testimony which the editor of a monthly review receives at his desk as to the progress of business and finance. This information flows in with the stamp of truth upon it. A large part of it is collected by the United States Government.

Statistics—A Composite Photograph

IF you had the opportunity of interviewing the president of the United States Steel Corporation to discover what was happening in the steel business, the conversation would perhaps be something like this:

"Good morning, Judge Gary, how is business?"

"Well, business is a little slow just now."

"What do you mean when you say slow, Judge?"

"Our plants are running at about 50 per cent of capacity."

"Well, how about new orders, are they coming in satisfactorily?"

"Our orders are a bit low just now; in fact our unfilled orders are as low as they have been since 1914."

The interview would be something like that and the interesting thing about it would be that nearly all the facts that one would secure from the interview are published in the newspapers almost as rapidly as they are available to Judge Gary. The Steel Corporation and other steel companies have long adopted the principle of making public major facts of their operations. So it is with industry after industry and trade after trade. We have available in current statistics the facts which could otherwise be secured only by thousands of interviews. What we really have is a composite photograph of a million interviews, and the photograph is in such form that we have thorough reliance that it is a good likeness of the businesses which make it up. The ordinary interview is colored by hopes or fears, and at times by de-

liberate attempts to mislead, but the writer knows no single instance where the statistical returns made public currently by an industry have been falsified.

How Statistics Serve

MANY people dread statistics, but statistics is the method and the only method by which large quantities can be combined in a composite photograph; the only means by which one may secure a true summary statement of business and finance in general.

At no time in the world's history has this fact been so clearly recognized as at present. We have listed above the thousands of individuals and business concerns that contribute to the Monthly Review of the New York bank. If we went back 10 years this list would be cut to less than one-third of its present size. During and after the war the nation realized that control of economic events could come only through exact knowledge and such knowledge could only come through the regular compilation of statistical data from hundreds of industries and trades. So government and trade organizations and associations of various kinds and individual concerns have joined in vast statistical undertakings—vast in terms of the picture which they give of the business and financial situation, but comparatively simple in their mechanism. The newspapers and trade publications have played their part in the movement by publishing this information as it is collected.

Statistics is an old science. The American Statistical Association, founded in 1839, is one of the oldest, if not the oldest, professional society in America, but the popularity of statistics is comparatively new. We have had a national decennial census of the population in this country for more than 100 years, constantly expanding in scope. A census of manufacturing industries every five, and now every two years, was started in 1905, but the current demand for monthly and even weekly statistics of business is a growth largely of the past ten years. It is only recently that an investor of large funds has refused to invest in a certain industry because it did not publish thoroughly reliable statistics of production and stocks. The new popularity of statistics is based on the fact that men have learned that somehow the statistics of an industry give them in unbiased form such a summary of an industry as could be secured in no other way.

Securing the figures is only one step in the process of writing a review of business conditions. The figures which are available each month about industry and finance would cover a large flat top desk several feet deep. They are a bewildering array. We find that in the month of May, 1924, the price of fair to choice native steers in Chicago was $9.55 per 100 pounds, that the production of pig iron was 2,615,000 tons, that average weekly earnings of factory workers in New York State were $27.54, that the earning assets of the Federal Reserve banks were something over 800 million dollars, that the interest rate on commercial paper was 4¼ per cent. A list of such figures could be made which would reach from the desk of the present writer to the Washington Monument, circle that monument three times, and return to New York City, or perform almost any other similar feat one might care to assign it.

Having secured the figures three steps are necessary:

1. Selection.
2. Analysis.
3. Discovering relation to economic laws.

A bank review, which simply listed a series of figures would not make interesting reading. The worthwhile review is one in which the month's crop of figures has been carefully winnowed out and the significant figures submitted to analysis.

The kind of statistical analysis which gives value to a review is well illustrated by the production index prepared by the Federal Reserve Board and published regularly in the reviews of all 12 Reserve banks, as well as in the Federal Reserve Bulletin. The preparation of this index involved securing reliable data for production in 22 major basic commodities, which were truly representative of large industries. Only those figures could be used which were available by the 25th of the month following that reported. In each series it was necessary to discover the typical seasonal variation and adjust the figures so that all month to month variations due solely to seasonal causes were eliminated. This meant a review of the monthly figures for previous years as far back as they could be secured, in most cases for at least 10 years. Before the 22 series could be combined in a single index it was necessary to determine their relative importance in the nation's total production. Each series was then given a weight proportionate to its importance. The whole process took several months' work of competent statistical workers, but the final result, shown in the accompanying diagram, gives the reader at a single glance an idea of the state of the country's production.

The Reserve Board has developed a whole series of indexes of prices, production, employment and trade, and the individual Reserve banks have developed still further series. The purpose of all these has been to substitute definite fact for hazy opinion and to summarize facts in brief understandable form.

Review, a By-Product

IT follows from what has been said that it is not possible to write a good business review simply by sitting down at a desk a few days before the copy goes to the printer and assembling the data which are available. The truly significant reviews of business are the results of patient analysis of figures and careful study of economic relationships.

To a large extent the Federal Reserve bank reviews are by-products of research undertaken primarily for the banks' own use and the use of the Federal Reserve Board. For guidance in their own credit policy, the banks and Board need reliable current information on production, prices, trade, etc. The monthly reviews make available to member banks and others the statistics which the Reserve banks have prepared for their own use.

The wide circulation of the monthly reviews of the Reserve banks has grown up naturally in response to requests. Their spontaneous growth indicates that the reviews have met a need, and this need is not far to seek. Every banker feels the need of credit and business information to guide his own operations. The banker is interested in distributing a competent review among his customers because he knows the reading of such a review gives his customers a better understanding of the problems of the bank. The reasons why certain kinds of collateral are not acceptable, why interest rates on deposits must be lowered, and the reasons for many other similar decisions which the banker must make, and which frequently cause friction between banker and customer, may be found in underlying economic conditions. The customer who understands these conditions is a better customer than he who is ignorant about them.

Dispelling Economic Illiteracy

BUT the business review should perform a broader service than helping a banker in his business. As a result of the war and its settlements the United States has become more of a world power. Our contacts with foreign nations have been multiplied many times. The economic progress of foreign countries is much more dependent upon us than ever before and our own economic fortunes are more closely bound up with the fortunes of the world. In our relations with foreign countries we have sometimes shown ourselves economically illiterate. This will not do in the future, and every step which is taken toward the spread of economic truth throughout the country strengthens our world position.

But if we confine our attention within our own boundaries we find that since the war we are in a new economic period. For the 25 years before 1920 we did business in a period of rising commodity prices, of rising interest rates, of decreasing bond values, of higher stock values, and increasing cost of living, but now the business atmosphere has changed. We do not yet know what the future will bring forth, but the pre-war movements have been interrupted. Business and bank failures are above normal. Business is going through a veritable revolution in the perfection of labor saving machinery and devices of management to increase the per man outfit. We are in a period which is testing out the economic intelligence of business men and bankers. It is a period when many of the old operating formulas do not apply. It is a period when each banker and each business man needs to study his operations in their economic setting, and the business reviews published by the Reserve banks and by others have arisen in response to just this need.

Payments Will Not Hurt France

(*Continued from page* 24)

September—and to accept League military supervision. It goes without saying that Germany's behavior on the issue of security, which occupies every Frenchman's thoughts, will largely determine, for the four-year-term of the new chamber, the general attitude of France toward Germany and, therefore, will have an important effect on her reparations negotiations. If Germany meets the wishes of the French *Left* on security, she will naturally be in a position to enjoy more French patience with regard to reparations.

Gold and the Level of Prices

London View of Our Stock of Gold and Its Effect on Prices. "The Commodity Value of Gold is Regulated by Any Vagaries in the Price Level in America." Obstacles in the Way of Reestablishing a Wide Market for Gold as Seen Abroad.

AN interesting view of the effect of our stock of gold upon the business of the country is given by Barclays Bank, Limited, of London, in its June review of business conditions. It observes among other things that "sterling may prove to be a more stable currency, measured by its commodity value, even than the American dollar."

"The gradual advance in the direction of financial equilibrium in Europe, and the signs that further progress may be secured in the near future," says the review, "have brought nearer the possibility of the restoration of a gold standard, that is to say the measurement of values in relation to gold. Austria, under the League of Nations scheme, has succeeded in regulating the external value of the crown. Poland has introduced the new zloty currency, and in Hungary the new bank of issue has been incorporated and the first steps taken on the pathway of financial reconstruction. The reforms have, in the main, been achieved on the basis of foreign credits and foreign balances, and these have not necessarily or even predominantly been gold balances.

Uncertainty of Future Value

"NEVERTHELESS, although the effect upon the gold supplies of the world has not been immediate, this realization of the need for and the determination to extend the area of stable currencies, is steadily diminishing the difficulties of the restoration of something analogous to the pre-war system and is providing evidence of the probable lines along which further progress may be possible. The restoration of the gold standard by a single country would almost certainly prove to be premature, because the complete efficacy of the gold standard depends upon gold being the effective international standard of value. Up to the present, the outstanding difficulty has been the instability of currencies, and of prices, in many countries, but even if this difficulty were removed, the problem would still be complicated by the uncertainty as to the future value of gold.

"It will be remembered that in 1922 the Genoa Conference recommended that, at a suitable time, an international convention should be adopted, the purpose of which would be to centralize and coordinate the demand for gold. Should the possibilities provided by the Dawes report result in a satisfactory solution of the Reparations problem, the time may not be far distant when a comprehensive examination of the difficulties involved in any determined attempt to reintroduce a common standard of value would be desirable.

"It must be realized that, under existing conditions, the operation of a gold standard does not necessarily secure either exchange or price stability, since the automatic working of the gold standard is regulated by the limit set by both the export and the import price of gold. For all practical purposes, the United States provides the only free gold market now existing, but even in the United States the commodity value of the currency, as reflected in the index number, is not necessarily more stable than it is in this country, for, although gold is freely purchased in America, at its mint price, the possibility of selling gold for export at mint price is limited in its fulfillment, owing to existing conditions.

Commodity Value of Gold

"THE commodity value of gold is, therefore, regulated by any vagaries in the price level in America. So far as other countries are concerned, gold for years past has been little else than a commodity for which a limited market exists.

"The steady drift of gold to America has been the result of this position, and there is little immediate possibility of any adequate re-distribution of the excess holdings thus acquired. This condition imposes an element of uncertainty which, until it is remedied, must mitigate against the restoration of a sufficiently wide market for gold to permit of the automatic working of the gold standard in any country. The problem of re-distribution is not only concerned with the relative trading position of the United States as compared with other countries. The table below, which is summarized from figures issued by the United States Department of Commerce, shows that the estimated balance of payments during 1923 was actually adverse to the United States.

Estimated Balance of International Payments of the United States in 1923

	(In millions of $).		
	Credit	Debit.	Balance.
Merchandise	4,208	3,819	+389
Current Invisible Items	792	1,162	−370
Total	5,000	4,981	+ 19
Movements of Capital—			
New Foreign Loans	32	377	−345
Sale and Purchase of Outstanding Securities	339	33	+306
Foreign Bonds paid off	23	—	+ 23
Principal of Inter-Allied Debt	91	—	+ 91
United States Currency	50	—	+ 50
Total	535	410	+125
Gold and Silver—			
Gold	29	323	−294
Silver	72	74	− 2
Total	101	397	−296
TOTAL BALANCE ALL ITEMS	—	—	−152

"The continued accumulation of gold by America cannot, therefore, be regarded as wholly due to the operation of the Fordney Tariff and the restriction of imports secured by that measure. Ignoring capital items, the value of exports, visible and invisible, from America is practically covered by the value of imports into that country. The flight of capital from Europe has contributed to the anomalous position that gold has left those countries where it is most needed, if sound conditions are to be restored, and has become superabundant in a country where it is already in excess of requirements. Of the world's monetary gold stock of about $9,000 millions, the United States now holds over $4,300 millions. To a considerable extent, this gold is lying unused and is reflected in the very high reserve percentages of Federal Reserve Banks. There are signs, however, that the continued expansion of gold holdings is beginning to affect the credit position. The Federal Reserve Bulletin points out that 'With the turn in credit and currency demands arising about the middle of 1922, not as many member banks had occasion to use their imported gold to repay borrowings at their reserve banks. The gold, therefore, constituted an addition to their reserve balances and enabled them to expand their loans to their customers without the need of rediscounting, and also to supply the cash requirements of their customers. In brief, the gold received during the period of liquidation in 1921 and 1922 enabled the member banks to recover a considerable degree of the independence of reserve bank support which they had lost in the preceding years, while the gold received since the middle of 1922 has enabled them to maintain their state of relative independence, notwithstanding the great intervening growth of credit.'

Sterling's Possibilities

"TO some extent, therefore, it would seem that the control exercised by the Federal Reserve Board over the credit position in the United States has been weakened, and although there is no doubt of the determination of the American banking community in general to avoid inflation, it is conceivable that with any pronounced alteration in the trend of trade, the currency condition may lead to an alteration in the price level. While America continues to be the only large free market for gold, such an alteration in American prices would inevitably be reflected in an alteration in the commodity

(*Continued on page 42*)

Banks' Liability for Burglary of Safe Deposit Boxes

By THOMAS B. PATON
General Counsel, American Bankers Association

Decision Affirmed by Supreme Court of California Gives the Country Banker an Insight Into the Requirements of Ordinary Care Applicable to the Construction of the Vault, Its Protection and General Conduct of Business of Safe Deposit Box Rentals.

BANKS, especially in the country districts, have been uncertain for years as to their liability to renters of safe deposit boxes in case of loss by burglary. The majority of courts hold the bank a bailee for hire under duty to exercise ordinary care, namely, that degree of care which a prudent person would take of his own property under like conditions; but the uncertainty lies in the application of this rule to the special facts of each particular case.

There have been a number of decisions of state courts of last resort both before and since the World War involving liability of the bank for loss by burglary of securities held for safekeeping, but the ordinary or reasonable care required in connection with the rental of safe deposit boxes presents its own special problem and up to quite recently (see Webber v. Bank of Tracy, published below) there has been no decision of a higher court, affording a precedent as to the requisite degree of care and declaring rules which could be looked to as a standard for guidanec.

True, the case of Genta v. Illingworth, 192 Pac. 1041 decided in August, 1920, by the District Court of Appeal of the First District of California, involved a question of liability of a firm of merchants in a small town who had installed safe deposit boxes which they advertised for rental and in this case a contention that the merchants were negligent was denied. But the report of the case is barren of facts indicating the basis upon which negligence was alleged and of a statement of governing rules as to the degree of care required.

SO again, the Supreme Court of Washington in 1922 in Harland v. Pe Ell State Bank, 210 Pac. 681, had before it a case where safe deposit boxes had been burglarized; but that case was decided against the bank upon the special circumstance that the cashier had failed to lock the outside door of the vault on the night of the burglary. The court decided affirmatively the question, "Did the act of the bank in leaving the vault door unlocked constitute want of due care, such as a prudent man would take under similar circumstances of his own property, that caused or permitted or contributed to cause or permit the burglary?" and it was unnecessary for the court to go into a detailed statement of the rules showing the degree of care required.

It is with peculiar satisfaction, therefore, that we learn of a decision recently rendered by a higher court which for the first time will give the average country banker an insight as to the requirements of ordinary care applicable to the construction of the vault, the methods of protection and the general conduct of the business of rental of safe deposit boxes. We refer to the decision of the District Court of Appeal, First District, Division 1, California, in the case of Webber v. Bank of Tracy, rendered Feb. 28, 1924, in which a hearing was denied by the Supreme Court of California April 28, 1924, which decision reverses the judgment of the Superior Court of Contra Costa County, California, rendered Dec. 28, 1920, against the bank upon 18 claims approximating $12,000 based on the verdict of a jury finding the bank negligent in connection with the burglary of its safe deposit boxes.

The judgment of the Superior Court of Contra Costa County was rendered over three years ago and the report of the case having been widely circulated, it caused much concern among banks all over the country, especially as the jury were instructed that they might take into consideration the absence of a night watchman and of a burglar-alarm system in determining the question of negligence, which safeguards were not maintained in many of the smaller towns; furthermore, as no case had ever come before a higher court in which the requirements of ordinary care had been defined in connection with the rental of safe deposit boxes, there has been a wide-spread feeling of uncertainty as to the question of liability. The decision of the California District Court of Appeal comes, therefore, as a welcome contribution to a branch of the law which has, up to now, been involved in doubt and in view of the importance of this decision, it is printed below in its entirety:

WEBBER v. Bank of Tracy (Civ. 4626.)

(District Court of Appeal, First District, Division 1, California. Feb. 28, 1924.
Hearing Denied by Supreme Court
April 28, 1924.)

Appeal from Superior Court, Contra Costa County; A. B. McKenzie, Judge.

Action by Charles S. Webber against the Bank of Tracy. From a judgment for plaintiff and an order taxing costs, defendant appeals, reversed.

Crittenden & Hench and Creed, Jones & Dall, all of San Francisco (Esmond Schapiro of San Francisco, of counsel), for appellant.

J. E. Rodgers and A. F. Bray, both of Martinez, for respondent.

Morrison, Dunne & Brobeck and Edward Hohfeld, all of San Francisco (H. A. Judy of San Francisco, of counsel), *amicus curiae.*

St. Sure, J. This is an action by plaintiff for himself and as assignee of 21 claims, against the Bank of Tracy, for the value of the contents of safe deposit boxes, kept in the safe deposit vault of the Byron branch of said bank, which were burglarized on Jan. 26, 1920. The complaint alleges that the bank was guilty of negligence and want of ordinary care in the protection of the safe deposit boxes and the preservation of the property contained therein. After trial by jury a verdict was had in plaintiff's favor on 18 claims, amounting to $12,322.14; from the ensuing judgment for that amount, the defendant appeals.

Facts of Case

THE facts are undisputed. The town of Byron, Contra Costa County, has a population of about 250, and is the center of a peaceful farming community. Its entire business sections comprises a single street on the main line of the Southern Pacific Railroad. There is but one two-story building in the place and all the buildings, with the exception of the bank, are of wood. Until 1911 there was no bank nearer Byron than at Antioch on the northwest, about 14 miles away, and at Tracy, on the south, about 15 miles away. In 1911 the Bank of Tracy instituted a branch at Byron and assigned to it $25,000 working capital. The bank building was of concrete, with 18-in. walls, and the vault was constructed of the same material of the same thickness, with iron doors, "fire-proof and thief resisting." The front door and windows were of the ordinary business type. The rear door and window were protected by iron gratings. The grating over the rear door is described as a "barred door." It was made of iron and was a "lattice work hung by two hinges on two steel pins which were anchored in the cement wall. It was

fastened . . . with a padlock on the inside of the grating." There was also a heavy wooden door across which, on the inside, was an iron bar. On either side of the bank building are wooden structures, and in the rear is a high, board fence. A vacant lot adjoining the bank premises gave access to the rear of the bank building Trees near said fence obscured the back door through which entrance to the steel vault was effected. No burglar alarm, bell, or other warning device was installed in the bank. There was no watchman for the same; the only peace officer in the community lived on the same street as the bank and within 65 feet of it. From the front of the bank the upper portion of the vault door could be seen by looking through the window, over the top of grill work surmounting frosted glass and wooden base. The whole partition was probably five feet high. Several trains passed on the main line during the night, and there was generally some switching there also. The street lighting system of the town was by popular subscription, and as funds were low the lights were used only occasionally. There was no telephone service out of the town after 6 or 7 o'clock in the evening. No one slept in the buildings on either side of the bank. Defendant had rented yearly on an average of 100 safe deposit boxes at an annual rental of $2 per box; the total income therefrom approximating $200 per annum. Defendant was accustomed to, and did, on the night of the robbery, use one of the safe deposit boxes for some of its own coin and Liberty Loan bonds. The safe deposit vault was burglarized by unknown persons by the use of the oxyacetylene torch and flame. With one possible exception this was the first bank robbery accomplished by such means in the United States, but following in the same year there were four other similar bank robberies in California. The oxyacetylene flame will cut through solid steel at least 26 inches thick. The precautions taken by the defendant for the safety of its box renters and the contents of such safe deposit boxes were similar and at least equal to those taken by all other banks in similar and even larger communities in California. Up to the time of the robbery no bank in any community in California with a population of less than 1,000 had a burglar alarm on its safe deposit vault, or kept a private watchman.

Defendant alleges as its first point for reversal that the evidence is insufficient to justify the verdict on any count.

Ordinary Care in General

BANK leasing safe deposit boxes is bailee for hire and in absence of stipulation not an insurer but must exercise degree of care a prudent person takes of his own property of like description, the standard varying with time and place, the influence of custom and business and kind of articles.

The relation between these parties was that of bailor and bailee. The defendant was a bailee for hire. It devolved upon defendant to use ordinary care in the safeguarding of plaintiff's property. Cussen v. Southern California Savings Bank, 133 Cal. 534, 65 Pac. 1099, 85 Am. St. Rep. 221. In the absence of any stipulation between the parties, the limit of a bailee's obligation is the exercise of ordinary care, and he cannot be said to be an insurer of the property against theft, if he has exercised such care. Perera v. Panama Pacific International Exposition Co., 179 Cal. 63, 175 Pac. 454; Copelin v. Berlin Dye Works, etc., Co. 168 Cal. 715, 144 Pac. 961, L.R.A. 1915C, 712. In general it may be said that a bailee is required to exercise that degree of care which an ordinarily prudent person bestows upon his own property of a like description. The standard of ordinary care must, of necessity, vary with time and place, since what might be ordinary care at certain times and in certain localities might, at different times and at other places, amount to but slight care. The influence of custom and business must also be considered in determining what is ordinary care, as in certain businesses or trades disposition may be made of property or goods by a man of ordinary prudence which, under other circumstances, would certainly be open to the charge of gross negligence. Moreover, what would be the exercise of ordinary care with regard to articles of a certain kind, might be far from such with regard to those of a different sort. When one is wanting in the exercise of ordinary care, he is said to be guilty of ordinary negligence.

Ordinary Care Against Burglary

CONSTRUCTION of bank building, methods of protection and general conduct of business should conform to those of banks in similar communities.

It would seem that the ordinary care required of a bank in a case like this is that the construction of the bank building and the methods of protection and the general conduct of its business should conform to those of banks in similar communities. Chilberg v. Standard Furniture Co., 63 Wash. 414, 115 Pac. 837, 34 L.R.A. (N.S.) 1079; Ketterer v. Armour & Co., 247 Fed. 921, 160 C.C.A. 111, L.R.A. 1918D, 798; Battelle v. Mercantile Warehouse Co., 139 App. Div. 649, 124 N. Y. Supp. 135; Jones v. Hatchett & Bro., 14 Ala. 743; Bertha Zinc Co. v. Martin's Admr., 93 Va. 791, 22 S.E. 869, 70 L.R.A. 999; Pioneer Fire Proof Construction Co v. Caroline Sandberg, Admx., etc., 98 Ill. App. 36; Burns v. Sennett & Miller, 99 Cal. 363, 33 Pac. 916; Hennessey v. Bingham, 125 Cal. 627, 58 Pac. 200; Longuy v. La Société Française, 52 Cal. App. 370, 198 Pac. 1011.

Burden of Proof of Negligence

WHERE box-renter alleges bank negligent, burden on him to prove negligence and burden not sustained by proving failure to install burglar alarm or employ watchman nor by proving no telephone system, inadequate locks and eye bolts on back door, inadequate street lighting system, trees and high board fence screening rear premises from observation, frosted windows, grill work obscuring view of vault door, shades on windows and noise of passing trains, as such circumstances afford insufficient basis for inference of negligence and even though such combination of circumstances be deemed negligence, such negligence not proximate cause of burglary.

Before proceeding with a consideration of the evidence we will advert to the charges made by plaintiff in his complaint against the defendant. It is alleged that the defendant was negligent and failed to use ordinary care in safeguarding the property. It was incumbent upon plaintiff to sustain the burden of proving these charges. As was said in Perera v. Panama Pacific International Exposition Co., 179 Cal. 63, 175 Pac. 454, it was incumbent upon the bailor to introduce evidence from which the jury might legitimately infer that the loss or theft was due to the lack of ordinary care on the part of the bailee. An examination of the record discloses an utter lack of such affirmative proof. Plaintiff's counsel beg the question by arguing that "no care at all appears to have been used by the bank in safeguarding its safe depositors." We look in vain for the proof. Take, for example, the charges of omission made against defendant, such as the failure to install a burglar alarm or employ a watchman; there is no evidence to support the conclusion that either of such omissions was a negligent omission. The same may be said with reference to every other charge made by plaintiff. But, say counsel for plaintiff, "we do not contend that any one of these elements would necessarily in itself be conclusive upon the question of reasonable care, but we do contend that all of them taken together constitute a very strong case of gross negligence." A complete answer to this contention is that the evidence is as barren of any proof which would support any "element" in plaintiff's case as it is with respect to the omission of the burglar alarm or watchman. In this connection counsel call our attention to what they term a combination of circumstances such as no telephone system, inadequate locks and eye bolts on back door, inadequate street lighting system, trees and high board fence screening rear premises from observation, frosted windows, grill work, obscuring the view of vault door, shades on windows, noise of passing trains, and the like. Such circumstances furnish no sufficient basis for any inference of negligence. Furthermore, even though such combination of circumstances be deemed negligence, it cannot be maintained that such negligence was the proximate cause of the burglary; the connecting links between the negligence and the burglary are wholly lacking. Union Investment Co. v. San Francisco Gas & Electric Co., 168 Cal. 58, 141 Pac. 807; Puckhaber v. Southern Pacific Co., 132 Cal. 363, 64 Pac. 480. The view we have herein expressed upon the question of the proof of negligence is fully supported by the opinion of Mr. Justice Myers of the Supreme Court in the recent case of Marovich v. Central California Traction Co. (Cal. Sup.) 216 Pac. 595.

When Court and Not Jury Decides

WHERE facts afford no basis for inference of negligence, question is for court and not for jury.

Plaintiff cites a number of cases holding that one doing a safe deposit business is a bailee for hire and is bound to use ordinary care, which is conceded. It is urged that the material facts in this case are in dispute, and therefore the question of negligence was one for the jury. We have gleaned from the record and stated herein all of the facts. We accept the rule as stated in Runkle v. Southern Pacific Milling Co., 184 Cal. 714, 195 Pac. 398, 16 A.L.R. 275, that—

> "It is only when the facts of a given case are not in any event or in any view of the case susceptible to the inference of negligence sought to be deduced therefrom that the question of negligence be-

comes one of law for the sole consideration of the court rather than one of fact for the determination of the jury."

It is apparent that counsel for plaintiff err in the application of this rule. Negligence is always a question of fact to be alleged and proved as averred. It cannot be supported by mere conjecture or surmise, but must be made referable to some specific cause or defect. As was well said in Perera v. Panama Pacific International Exposition Co., supra, at page 67 (175 Pac. 456):

> "It is true, of course, that evidence of facts and circumstances from which want of ordinary care may reasonably be inferred is sufficient to support a conclusion of negligence, in which event the question of negligence is one for the jury. But the difficulty here is that the facts and circumstances shown by the evidence furnish no sufficient basis for any such inference."

Negligence is not to be imputed from methods in general use in any business. The standard of ordinary care is established by competent testimony upon the custom and general usages of the business. Absolute protection against bank burglary, in small communities, is unattainable. Indeed, one witness, a safe manufacturer, said in this case "there is no such thing as a burglar-proof safe . . . By theft-resisting I mean the safe gives reasonable protection." No man is held by law to a higher degree of care than the fair average of his profession, business, or trade, and the standard of due care is the conduct of the average prudent man. The test of negligence in the bailee is the same, and however strongly they may be convinced that there is a better, no jury can be permitted to say that the usual way and ordinary way is a negligent way, for which liability shall be imposed. Juries must necessarily determine the responsibility of individual conduct, but they cannot be allowed to set a standard which shall, in effect, dictate the customs or control the business of the community. Bertha Zinc Co. v. Martin's Adm'r., 93 Va. 791, 22 S.E. 869, 70 L.R.A. 999. Counsel for plaintiff would have defendant an insurer, which most emphatically it is not.

Weakness of Vault Door

NEGLIGENCE not inferable from fact that boxes not kept behind a stronger door.

Counsel for plaintiff further insist, that negligence is inferable from the fact that the safe deposit boxes were not kept behind a stronger door of a vault maintained by defendant. Merchants' Bank of Vandervoort v. Affholter, 140 Ark. 480, 215 S.W. 648, is cited in support of such proposition. An examination shows that this was a case where Liberty bond subscription cards designating registered bonds, together with purchase price of bonds were deposited with the bank, the bank having ordered coupon instead of registered bonds, was liable to subscribers for money advanced, upon the theft of the bonds from the bank vaults, whether it was acting as agent of subscribers or as promoter of loan drive, since having accepted funds for purchase of bonds it was responsible to subscribers either for return of money or for delivery of bonds designated in subscription contract. Here the bank had a special duty to perform and was intrusted with the money with which to purchase the bonds. It undertook to purchase the bonds and safely keep them. The case is not at all in point. Besides, in the instant case the facts show that defendant was accustomed to and did use the safe deposit boxes for some of its own coin and Liberty bonds.

FURTHERMORE bank proved maintenance of vault conformed to practice and conduct of other country banks in similar towns.

While plaintiff has wholly failed to affimatively show negligence, defendant has shown by undisputed evidence, that in maintaining its safe deposit vaults it conformed to the practice and conduct of all other country banks in California, situated in towns of like population and character. Briefly, this evidence shows, without conflict or contradiction, that the bank building was as good or better than the ordinary country bank building in California; that the interior arrangement of the bank was the ordinary and usual arrangement; that the bank vaults were protected by doors similar in all respects to those in other banking institutions in California in similar sized communities; that no bank in California, up to the time of the robbery, in a community of less than 1,000 inhabitants, had either a night watchman or a burglar alarm.

Bank Not Liable

BELIEVING, as we do, that the evidence wholly fails to sustain the verdict, we are of the opinion that the judgment must be reversed. The order of the trial court taxing costs, made after judgment, from which the defendant also appeals, naturally falls with the main case. We consider it unnecessary to consider other points raised by defendant.

Judgment reversed.

We concur: Tyler, P. J.; Short, J., *pro tem.*

Emphasis On Prices

(Continued from page 12)

most complete paralysis of Continental European industries, has had little effective competition for his products in the markets of the world. Just when these European enterprises will find it possible to resume anything like normal activity no one can say, but once they do, they will produce cheaper and in greater quantities than ever in their history, and consequently will sell at prices far below the present level of American markets. When that time comes the American manufacturer whose plant, like that of the farmer, is geared up for large excess production will find himself driven from the markets of the world, and despite iniquitous tariffs having to fight for his market at home, unless and until he adjusts his production cost and his selling price to the competition he will be forced to meet. That this adjustment will be made is inevitable. It cannot be made, however, until a reduction in the cost of labor is made, and this may not be anticipated without a bitter struggle.

THE next battle for legislative protection is more likely to be from organized labor than from the farmer. But in the end labor will not materially suffer, for what the laborer receives is of less consequence than what he pays. If in the liquidation that comes, the cost of living is reduced, as certainly it will be, the laborer will have an equal margin of savings, although working for a smaller wage. Labor, when this crisis comes, will have a choice of meeting the situation in a spirit of fairness and equity, or of paralyzing industry, which cannot meet the competition of its less expensive competitors, and of inevitable idleness and privation. Labor leaders who have industriously fought for ever increasing wages may soon face a terrific responsibility if they continue their strong-arm tactics of holding up industry for all the traffic will bear. It is one thing to terrorize commercial life when there are two jobs for every man. It is a more difficult thing to do when there are two men for one job.

The Farmer as Organizer

THAT the farmer is at a disadvantage because he is unable to organize seems to be an accepted principle in discussing agricultural conditions. But is it true that the farmer is unable to organize? As a class he is in touch with the world and with his fellow farmers. Except in a minority of cases he can feel the pulse of the business world day by day. The farmers of America demonstrated some ability to organize under adverse conditions during the Revolution. They possess that ability today. One difficulty in getting many farmers into societies is that they have had previous and sometimes unfortunate experience.

However, one of the most striking developments of the past few years in the sphere of agriculture has been the organization of cooperative marketing associations. In the Middle West, the South and on the Pacific Coast the growers of various products have banded together in their desire to gain a better price for their commodities, and they have been successful to a large extent. Indeed, the extension of the cooperative marketing idea has been advanced as the most effective means the farmer has within his command of bettering his own condition.

Recent Decisions

DIGESTED BY THOMAS B. PATON, JR

Assistant General Counsel

BILLS AND NOTES—NOTES MADE ON SUNDAY BUT DATED ON WEEK DAY—FAILURE TO AFFIX REVENUE STAMPS —MISSISSIPPI

WHEN a party makes and puts in circulation a negotiable instrument purporting to be made and bearing date of a secular day, he is estopped as against an innocent holder from showing that it was actually executed and delivered on Sunday. The failure to place the proper revenue stamps on a negotiable instrument in accordance with the Federal law does not render it non-negotiable in this state. Currie-McGraw Company v. Friedman, Sup. Ct. Miss. Decided May 26, 1924.

CHECKS—RECOVERY DENIED WHERE ACTION WAS ON CHECKS GIVEN IN "KITING CHECKS"—MICHIGAN.

THE plaintiff and defendant were interested in promoting two small corporations. They did not have sufficient funds so they agreed to exchange checks, one of the parties living in Toronto and the other in Detroit. The plaintiff gave checks to the defendant, and the defendant gave checks to the plaintiff. As money was required in Detroit, the defendant would present one of plaintiff's checks, advise the plaintiff, and the plaintiff would deposit one of defendant's checks to meet it. This practice was what is known as "kiting checks," and the plaintiff admitted that he knew it was a fraud on the bank in that it gave a false credit. This action was on checks given in the course of these transactions. Held: There can be no recovery. The parties were engaged in an unlawful practice to establish a false credit for the purpose of getting funds to finance their corporations. Both parties are in pari delicto, and neither is entitled to any consideration from the courts. The courts are busy enough untangling legitimate transactions, without undertaking to enforce a balance which has accrued to one of two persons out of fraudulent transactions. Kremer v. Smith Supt. Co., Michigan. Decided June 2, 1924.

CHECKS—PAYMENT OF FORGED CHECKS—DEPOSITOR NOT NEGLIGENT—MASSACHUSETTS.

IN this case the plaintiff, the proprietor of an automobile selling business, employed an auditor to install a bookkeeping system. The auditor took charge of the check-books and other books. He forged several checks, and upon their return apparently destroyed them. It was found as a fact in the case that the plaintiff was not negligent in not discovering the forgeries. The plaintiff sued the bank for its negligence in paying forged checks. Held: Plaintiff should recover. The court stated the general principle of law to be that the bank was bound to know the signature of its depositors, and payment of a forged check, either over the counter, or through a clearing house, could not be charged against the plaintiff if he was wholly free from neglect or default in connection with the management or supervision of his business, which contributed to the fraud practiced upon the defendant. Grow v. Prudential Trust Co. Sup. Ct.—Massachusetts Decided May 23, 1924.

Summarized

AN innocent holder of a note dated as of a secular day cannot be defeated by the party liable showing it was actually executed and delivered on Sunday. Federal revenue stamp not necessary for negotiability.

WHERE there is a mutual exchange of worthless checks for deposit between parties, to enable them to take advantage of credit of checks while in float, known as "kiting checks," neither party engaged in the unlawful practice can recover on the checks given in the transaction.

A DRAWEE bank is bound to know its depositor's signature. Bank is loser where depositor's auditor forges and cashes checks, if depositor is free from neglect in supervision of business.

DRAWEE bound to know depositor's signature. Cannot recover from holder in due course for whom it cashes checks on forged signature of depositor.

NEW notes given in lieu of old obligations in bona fide holder's hands are founded on sufficient consideration, substitution being prima facie proof of consideration.

MAKER of a note seeking to bind an estate, signing as administrator when he is not such, is personally liable thereon.

BANK getting proceeds for transfer of customer's note to another bank by ultra vires act of benefited bank's president, is bound by president's guaranty of the note, the guaranty inducing the payment of proceeds. A renewal or extension of the guaranteed note releases the guarantor.

BILLS AND NOTES—NEW NOTES GIVEN FOR OLD ARE FOUNDED ON A SUFFICIENT CONSIDERATION—KANSAS.

WHERE an indebtedness is refunded and new instruments are given in lieu of older obligations valid in a bona fide holder's hands, with such changes in due date, rate of interest and the like as the convenience or necessities of the debtor may require and the circumstances of the creditor permit, the substitution of the new obligation for the old one is sufficient consideration, and the fact of substitution is prima facie proof of consideration. Pool v. Gates. Sup. Ct. Kansas. Decided May 10, 1924.

BILLS AND NOTES—ONE SIGNING IN A REPRESENTATIVE CAPACITY, BUT WITHOUT AUTHORITY, HELD PERSONALLY LIABLE—RHODE ISLAND.

IN this case the defendant purchased a motor truck and gave a promissory note signed "Est. of Felix Hebert, Frank Hebert, Adm'r." It does not appear in evidence that the defendant had been appointed administrator, or that he had purchased the truck for the estate, or that he had authority to do so. Sec. 26, Chap. 200, Laws 1909, provides among other things that where a person adds to his signature words indicating that he signs (a negotiable instrument) in a representative capacity, he is not liable, if he was duly authorized. The plaintiff claims that, under this section, the defendant is personally liable on the note, as he was not fully authorized to sign it. Held: As the defendant had no authority to sign the note for the estate of Felix Hebert, he is personally liable on it. Ryan v. Hebert. Sup. Ct., Rhode Island. Decided June 7, 1924.

PRESIDENT'S GUARANTY OF NOTE ULTRA VIRES—GUARANTY FOR BANK'S BENEFIT BINDS BANK—DISCHARGED BY UNAUTHORIZED EXTENSION—TEXAS.

PLAINTIFF bank extended credit to a motor company in 1920 above the amount allowed by statute to one borrower. The president of plaintiff bank induced defendant bank to take one of the notes to the amount of $25,000, himself as president guaranteeing the payment thereof. Defendant credited plaintiff with the amount, which plaintiff forthwith withdrew in preparation for the examiner. The directors of plain-

tiff did not know of the transaction for months and never ratified the same.

The note was renewed, without the knowledge or consent of the president guarantor, and reduced by payment of interest and $6,000 principal. Later the motor company borrower became insolvent, and defendant bank, seeking to avail itself of the guaranty on the note, applied plaintiff bank's balance with it to the note. And this suit is brought for the restoration of the balance.

Plaintiff claims that it was not bound by the guaranty of the president, since the banking law provided that a bank officer could not negotiate obligations received for loans unless authorized by the board of directors. And, further, that whatever liability on the note there might have been against plaintiff, it was discharged by the extension of the note without the consent of plaintiff.

To the plea that plaintiff was not bound by the president's guaranty, because his act was ultra vires as to the bank, the court held that since plaintiff bank had received the proceeds of the note, induced to be taken by the guaranty, it could not avail itself of this plea. But on the grounds that a guarantor cannot be held on a subsequent note, given for the surrender and discharge of the guaranteed note, the court held for the plaintiff, and it is affirmed on appeal. For liability upon guaranty is discharged by unauthorized renewals and extensions. Farmers' State Bank v. First State Bank, 260 S. W., 664.

Trust Powers of a National Bank—Power of a National Bank Converted from a Trust Company to Continue as Executor and Trustee—Massachusetts.

THE Supreme Court of Massachusetts just handed down a decision which is of considerable interest to national banks; the case involving the question whether the First National Bank of Boston has a right to be appointed executor under a will which in terms appointed the International Trust Company, the International Trust Company having been consolidated with the First National Bank of Boston under the United States Statutes, and the testator having subsequently died.

The court reasoned that, when a trust company named as executor in a will is converted into a national bank, it is no longer the executor named, because it is governed by different laws, created by and subject to a different sovereignty whose policy with respect to the powers and duties of trustees is materially different from that of the state law governing trust companies. Petition of First National Bank of Boston, decided June 14, 1924.

Note: The United States Supreme Court in Metropolitan National Bank v. Clagett, 141 U. S. 530, was very pronounced in its views that the conversion of a state into a national bank did not destroy its identity, but resulted in a conversion of the same corporation under a changed jurisdiction with the same property, assets and banking business, and in view of this position of the Supreme Court the question is not so free from doubt, but that an appeal to the Supreme Court would be justified to obtain the final decision of the proposition by the ultimate tribunal. If the converted bank is the same corporation to continue its banking business, why can it not be equally argued that it is the same corporation to continue its trust business?

Non-Payment of Checks Drawn Against Sufficient Deposit—Statutory Requirements of Proof of Actual Damage to Drawer—Arkansas.

PLAINTIFF boarding house operator drew four checks against defendant bank where she had a balance sufficient to cover the checks. The bank returned the checks to the payees, marked "No funds," because it had charged off plaintiff's deposit to cover an obligation against her in favor of the bank, and which was not then due. The bank had no lien on the deposit and was mistaken in thinking they had a right to write off the deposit of a solvent depositor.

Plaintiff sued the bank on the ground that her credit had been injured as a trader, and the lower court awarded her $250. But this court reversed and remanded for a new trial, on the ground that plaintiff could not recover substantial damage until she proved that there was such damage resulting. For under the Arkansas General Acts, 1921, p. 514 (at p. 524), there could be recovery for "wrongful dishonor of his check only upon allegation and proof of such special damages as have proximately resulted to him therefrom." State Bank v. Marshall, 260 S. W. 431.

Note: During the last few years at the instance of the A. B. A. similar drafts have been passed in seventeen states limiting the liability for non-payment of checks through error. Under the recommended draft, only actual damage as alleged and proved can be recovered. This changes the rule for the enacting states, for without the act merchants and traders are awarded substantial damage without proof thereof, it being presumed their credit is injured.

Securities Left with Bank for Safekeeping Not Subject to General Lien Against Bankrupt—Prior Agreement May Vary Rule—Massachusetts.

PLAINTIFF is trustee in bankruptcy of a former customer of defendant bank, and now demands of defendant the surrender of certain Liberty bonds which it held for safekeeping. The customer had purchased the bonds through defendant by partial payments while he was doing a general banking business with it. The customer, a wholesale feed dealer, got advances and discounted drafts against his consignees with defendant, after entering into an agreement with defendant that it would have a lien on his deposit with all securities left by the bankrupt "for safekeeping or otherwise" then and any time in the future.

When the Liberty bonds were paid for in full, defendant gave the bankrupt a receipt for the bonds "for safekeeping," and they remained in the possession of the bank. And now plaintiff trustee demands the bonds as part of the assets of the bankrupt on the ground that they were with the bank only for safekeeping. But under the terms of the contract the bank was allowed to show that as between the bank and the customer all the collateral of the customer in the possession of the bank was there for securities on advances and contingent liabilities on the drafts of the customer. Nor could the fact that the bonds were not in existence at the time of the agreement for the lien affect the right of defendant to hold them in accordance with the terms, which covered future as well as present collateral.

The court pointed out that a bank has no lien on bonds left with it merely for safekeeping, other than the charges for such safekeeping, unless there is an agreement extending such lien. Foster v. Com. Nat. Bank, 142 N. E. 767.

Guaranty of Bank Deposits—Bank Commissioner Determines Interest Rate on Eligible Deposits—Kansas.

PLAINTIFF was issued a certificate of deposit by a bank now insolvent, which certificate provided for payment "on return of this certificate properly indorsed, interest at the rate of 4 per cent per annum for all full months if left six months." The bank commissioner refused to issue plaintiff a certificate upon the State Guaranty Fund for the amount of the deposit, although the insolvent bank's depositors were guaranteed under the State Depositors' Guaranty Fund, and the certificate recited that the deposit was guaranteed. The ground of refusal was that, under the authority conferred upon the commissioner by law, he had named the class of deposits eligible for guaranty; and this deposit did not fall in the class of approved "maximum rate of 4 per cent on time certificates of deposit not payable in less than three months and not extending more than two years and having a definite date of maturity when interest shall cease."

Plaintiff proceeded by mandamus to compel the issuance of the certificate on the Guaranty Fund, but was unsuccessful, the court holding that the money was deposited for a certifiate bearing 4 per cent, but not complying with the requirement for certificates bearing such high rate of interest. That the commissioner had ruled that certificates must be payable at a definite time within two years, while it was payable any time after six months with 4 per cent interest, and any time before without interest, and that since no time was fixed for redemption of the certificate, it did not conform to the order of the commissioner for a time certificate, and, therefore, was not covered by the Depositors' Guaranty Fund. Barrett v. Foster, 223 Pac., 1091.

Note: This decision seems to defeat the intention of the legislature that "all deposits not otherwise secured shall be guaranteed by this act." [Kan. Gen. Stat. (1915), Sec. 600, re-enacted 1923, c. 72, p. 108]. It was intended that banks should not "pay interest on different terms or in excess of a rate (which rate shall be uniform within each county) that shall be approved by the bank commissioner." But it is doubtful that the commissioner is authorized to set any arbitrary limit within which time certificates of deposit must become due, his power going to the rate of interest only, and not as to how long or short the time of running.

Of What Are We Fearful?

By WALTER W. HEAD
President American Bankers Association

No Obstacle to Progress Comparable to Those Our Forefathers Overcame. Era of Continental Currency. Easy Money and Easy Credit of the Early Thirties When Great Tracts of Land Were Exchanged for Paper Currency. Resources for Every Need.

NO man acquainted with conditions in our agricultural districts, who has been and still is familiar with the problems of the farmer, can minimize the seriousness of the economic depression. On the other hand, too frequently during the recent period of depression, the more devastating loss has been the loss of confidence, the loss of confidence in our individual power, the loss of confidence in the ability and integrity of our fellows.

Man's mind and man's spirit are more potent than dollars made by man. If we revive the one, we will soon restore the other.

Of what are we fearful today? What is there, in today's crisis, that is more serious, that we are less able to surmount, than the crises of former years. There is nothing; there is no obstacle to progress greater than those which our forefathers overcame in their day, that there is no disability of our people more serious than those against which they labored. On the contrary, we have advantages, great advantages, which they did not enjoy. We have greater wealth, greater knowledge, greater experience, greater resources of communication and of transportation for the mobilization of our forces. What we must develop—from the inherent strength within us—is patience, tolerance, persistence, courage.

What Crisis Is Comparable

WHAT crisis — today — compares with that of 1775 to 1783, when America's gallant little army fought for independence against a powerful foe! Continental currency was issued by the wagonload—and depreciated in value until a paper dollar would pass for only two or three cents. So serious was the situation that Congress sought to force by legislative act the acceptance of its paper money in exchange for merchandise; men suffered the loss of their stocks of merchandise—were sent to jail—for refusing to accept Continental currency. Congress undertook to fix the price of provisions and the wages of all labor, but few there were who honored the decree by obedience thereto. Finally General Washington was authorized to seize the provisions needed by his army, giving the former owners a receipt of seizure which was a claim for later payment. Even this drastic measure—almost a last resort—had to be abandoned because of popular opposition. The revolutionary cause continued to stagger along, sustained by one bit of good fortune and then another—never secure. At Valley Forge, in 1778, 3000 of Washington's little army of 8000 men were barefooted and almost naked; Washington wrote to Congress that unless relief came the army must "starve, dissolve or disperse in order to obtain subsistence." Three years later Washington's march to Yorktown—the military strategy which ended the war with victory—was halted because the Continental soldiers demanded pay—and Washington had no money with which to pay them. Robert Morris borrowed $20,000, a sum sufficient to cheer the weary soldiers, and the march to victory was resumed.

Such were the overwhelming odds against which the patriots of the Revolution were forced to labor. Such was the plight of our nation in the critical period of its birth—financially, virtually bankrupt; economically, perilously near collapse.

Yet victory was won. Independence was achieved. Strong and enduring structures of government and of finance were established. The darkest hour proved indeed to be the hour just before the dawn.

A little more than fifty years later the country suffered from a period of over-expansion and subseq ent deflation, which, in certain respects, parallels our present situation. The early thirties were years of "easy money" and "easy credit." Plenty of cheap money stimulated speculation. Enormous tracts of public lands were sold to settlers or to speculators. There were "booms" in real estate, in cott n, in timber and other commodities. Between 1834 and 1836 the sales of government land rose from less than $5,000,000 to nearly $25,000,000 annually. In New York City the assessed valuation of property rose in two years from $104,000,000 to $253,000,000, while in Mobile, Ala., the speculative fever raged so furiously that property valued at $1,294,000 in 1831 was rated in 1837 by speculative traders as being worth $27,480,000.

Land for Paper Money

GREAT tracts of government land were exchanged for paper currency issued by banks of doubtful solvency. The situation alarmed President Jackson, and in 1836 he issued the famous "specie circular"—an effort on his part to put a check to reckless inflation, comparable in fact to the action of the Federal Reserve Board in 1920 when it increased the discount rate. Jackson undertook to check over-expansion of currency; the Federal Reserve Board directed its attention against over-expansion of credit. The purpose was the same—the result was the same.

Jackson's order required payment for government lands to be in gold or silver. It dealt a staggering blow to speculation. The banks then held less than $38,000,000 in specie, against $525,000,000 of outstanding notes. Few of them could redeem their currency, and there were widespread suspensions. Everywhere there was distress. Men were thrown out of work; in New York City there were bread riots. During the short period of ten days in the spring of 1837 the business failures in New York City involved $27,000,000, a stupendous sum for that day. Property could not be sold for enough to pay the taxes. A committee of New York business men advised the President that, in eight weeks, 250 large business houses had failed—a great number for that day—that 20,000 laboring men were parading the streets, destitute of food and unable to find employment. Coin disappeared from circulation. A number of states, unable to raise money by taxation, repudiated the interest and principal of their debts.

Martin Van Buren succeeded Andrew Jackson as President of the United States just as the storm broke, and in the autumn of 1837 he called a special session of Congress. In his message to Congress he specified four causes for the disastrous panic, three of which find close parallels in the situation which existed four years ago. These causes were: (1) Over-expansion of banking facilities; (2) excessive borrowing of foreign money by individual states; (3) reckless speculation in land; (4) vast expenditures for "ruinously improvident" public works.

No Relief by Legislation

VARIOUS expedients of legislation were proposed for relieving the situation. None was adopted. President Van Buren insisted that, instead of praying to the government for relief, individual citizens must find the solution of their difficulties in a return to toil, economy and thrift. That—and that alone—brought relief. In a few brief years the whole country was again on the upgrade of progress, enjoying prosperity which lasted until almost the beginning of the Civil War.

I have cited these two crises of our early history in some detail—the first because of its extreme importance, threatening as it did the very birth of the nation, the second because of its striking analogy to the present occasion.

In 1857 a financial panic forced all but three banks in the United States to suspend specie payments. Cotton dropped from sixteen to nine cents a pound, and there were widespread failures. Again in 1873 the failure of important New York banking houses precipitated that memorable Stock Exchange panic known as "Black Friday," the preliminary of a countrywide depression which forced banks to close their doors, drove corporations into bankruptcy and threw many thousands of men out of work. Twenty years later the panic of 1893 swept the country. Many here present know personally of the losses which that entailed. Nor should we overlook, in this recapitulation, the greatest crisis of all—the Civil War. We have but to read the files of the daily newspapers of 1861 to realize the enormity of the crisis. The beginning of the conflict found the northern states far from united behind the government at Washington. A substantial minority believed that the "erring sisters" should be allowed to "depart in peace." The fiscal operations of the government were, at times, handicapped very seriously because of the lack of enthusiasm for the Union cause; before the war was over, men were drafted into the army and there were riots in New York City in opposition to the draft.

Resources Sufficient for Every Need

YET through all these crises the nation emerged triumphant. Courageous leadership and a devoted citizenry "carried on" in the face of every obstacle, overcame every handicap, swept aside all opposition.

How can we, today, assume that we will do otherwise? Of what should we be fearful?

We have been swept off our feet by the ease with which we were able to progress in those days of seeming achievement, of fictitious rewards. We have suffered a setback. Some of us have suffered actual losses; some of us actually are worse off than we were before the period of unnatural inflation began. But still we have resources beyond those available at any previous period of our country's history, resources sufficient for every need if we but use them economically and effectively. The joy-ride is over, but if we make proper use of the resources in our care, none need go hungry.

Our national wealth amounts to about \$3,000 per capita, thirty times what it was a century ago. Our banks have \$40,000,000,000 in deposits. Our life insurance companies have assets of over \$7,000,000,000 and outstanding policies of over \$70,000,000,000—evidence of the willingness and the ability of our people to provide for their dependents. Our national resources are sufficient for generations to come—and are being used more effectively with each passing year.

We have sufficient for all our needs. We must forget some of our desires—desires for things which we do not need, desires born of that period of "easy money" when a wish became a reality over night. We must forget the immediate past. We must resume the steady march of progress under normal conditions.

Man's mind and man's spirit are more potent than dollars made by man; if we revive the one we will restore the other.

Gold and Price Level

(*Continued from page* 35)

value of gold, and it is this element of uncertainty which makes it possible that sterling may prove to be a more stable currency, measured by its commodity value; even than the American dollar, the gold basis of which has not been disturbed.

"Such arguments as these, however, do not diminish the desirability of the general re-establishment of a gold standard; they only indicate the essential preliminary of a return to conditions under which the effective demand for gold will be sufficiently widespread to ensure that it really will be a standard of value and not a commodity whose value is determined by the price level ruling over a limited area. This, as was so clearly pointed out in the discussions at Genoa, cannot be done by any one country acting in isolation. If it can be conceived that at any time the United States would refuse to take gold at their mint price, the price would immediately be governed by its value as a commodity, unless this proved to be lower than the mint price in this country. On the other hand, if among the countries anxious to return to the gold standard, a strong demand for gold should develop, its commodity value would inevitably rise.

Nature of Stabilization

"ANY great accumulation by European countries cannot, however, be considered likely. Among many of the neutral nations, the central reserves are stronger than before the war, partly because of importations from the belligerents and partly because of the withdrawal of gold coinage from circulation. Among those countries, also, which have suffered more severely and where the currency conditions are more uncertain, the difficulties of acquiring gold, in the face of an adverse trade balance, are considerable, and the probability is that the form of stabilization adopted will depend, for its maintenance, not upon the accumulation of actual gold reserves, but rather upon the possession of adequate foreign balances.

"Without some investigation of the possible effect of such factors as these, it is almost impossible to foresee what the permanent commodity value of gold will be. Yet it is an essential preliminary to the restoration of a full gold standard that this permanent value should be known with sufficient accuracy, for that value will determine the level of prices necessary to restore the pre-war parity, or, alternatively, the ratio of devaluation necessary in cases where inflation has proceeded too far for any attempt to reintroduce the pre-war parity to be successful.

"Fresh possibilities which promise some measure of progress toward the solution of many difficulties are now developing, and it may be that in the near future conditions will justify the summoning of the conference suggested at Genoa in 1922. There is every reason to hope that such a conference would receive strong support from the United States, where the problem of gold is becoming more important month by month."

Causes of Discontent

(*Continued from page* 22)

may be adapted to any condition of human experience and human effort.

And then we must take hold of this government of ours and improve its actual functioning. We must get the nation's legislature closer in time and closer in spirit and responsibility to public opinion and the expressed nation's will. We must devise ways and means of overcoming friction and combat between the executive and the legislature, to the end that the government may be economical, may be honest, may be effective and filled with a spirit of progress and of service. Then back of it all, we must arouse the spirit of American citizenship to the point where every man and every woman will feel it a personal disgrace not to assume his or her share of responsibility in the formulation of public policy and in the choice of public officers. If we withdraw ourselves for any cause—indifference, selfishness, partisanship, prejudice—from the conduct of our government and help in its responsible control, who is there for us to blame?

The World's Lowest Bank Rate

NEW YORK boasted of the lowest central bank rate in the whole world on June 12, when the Federal Reserve Bank reduced its rediscount charge to 3½ per cent.

Prior to this reduction, the rate was on a par with that of London and Switzerland—4 per cent.

The bank rates then obtaining in the other parts of the world, as listed in the *Wall Street Journal*, were as follows:

Austria	12%	Japan	8.03%
Belgium	5½%	Latvia	8%
Bulgaria	7%	Lithuania	6%
Czecho	6%	Netherlands	5%
Denmark	7%	Norway	7%
England	4%	Poland	12%
Esthonia	7½%	Portugal	9%
Finland	9%	Rumania	6%
France	6%	South Africa	6%
*Germany	10%	Spain	5%
Greece	7½%	Sweden	5½%
Hungary	18%	Switzerland	4%
Italy	5½%	Yugoslavia	6%

*Rentenmarks.

It was expected, however, that London probably would lower its rates in view of the rediscount charge in New York.

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Why Congress Failed to Vote on the McFadden Bill

DISAPPOINTED but undaunted by the failure of Congress to vote upon his bill to modernize the National Bank Act before it adjourned, Representative Louis T. McFadden of Pennsylvania, chairman of the House Banking and Currency Committee, has announced that he will try to obtain early action on it at the next session of Congress, which begins in December.

The McFadden bill, although favorably reported by the committee, was not given a special rule by the committee, which has the power to give special precedence to proposed legislation until four days before adjournment. The Rules Committee, of which Representative Snell of New York was chairman, voted to take up the McFadden bill after the House had disposed of the McNary-Haugen bill. The farm relief measure, bitterly opposed in many quarters because it attempted to introduce the principle of price fixing in farm products, provoked protracted debate and, when finally brought to a vote, was defeated.

When Representative McFadden and other members of the House, who were pressing for action on the banking measure, sought to have it placed on the calendar for eleventh-hour consideration, they were met with the unofficial statement that, inasmuch as Congress had failed to give any relief to the farmers, the passage of legislation to help the bankers would bring much criticism upon the members of the House because it would appear they were more solicitous of the welfare of the banks than of the farmers. It was largely due to this political situation that the bill, designed to give relief to the national banks, never came to a vote.

In the Senate the McFadden bill was reported favorably with some amendments from the Committee on Banking and Currency by Senator Pepper of Pennsylvania. However, Senator Glass of Virginia, who sponsored the Federal Reserve Act in Congress, expressed opposition to that feature of the bill which would empower the Federal Reserve Board to keep under certain conditions banks with branches from joining the system. He contended that the Federal Reserve Board had usurped power in laying down the regulation that state banks, having what it considered an undue number of branches, could not gain membership in the system. Largely due to his opposition to the restrictions on branch banking and the shortness of time, the bill was not allowed to come up on the floor of the Senate. Other senators, who look with favor on branch banking, were prepared to support the position taken by Senator Glass, it is understood.

In expressing his disappointment over the failure of the bill to come to a vote, Mr. McFadden told the House that although the measure was reported favorably by the Banking and Currency Committee on April 20, "after careful deliberation and the holding of extensive hearings," and the chairman had "immediately presented the request to the committee for a rule," this was refused by the chairman of the Rules Committee. "Not until the most persistent efforts were put forth did the Rules Committee finally present a rule for the consideration of this measure on June 3," he recited.

"Notwithstanding the fact that we had repeated assurances of the passage of this bill at the present session of Congress by the leaders, the consideration of the bill, because of their attitude, has been postponed until the December session of the present Congress. This action on the part of the leaders in not permitting the action on this bill at this time precipitates a most crucial situation. The national banking system is facing a crisis because of the competition of state banks and trust companies, which has grown up recently, and many of the most important national banks are awaiting the decision on this bill as to whether they will remain in the national system.

"The branch banking situation is developing so rapidly throughout the several states that the refusal on the part of Congress to consider this restrictive measure at this time is simply an invitation for the extension of branch banking in the United States which will be more troublesome to deal with next December than at the present time. The importance of this measure to the Federal Reserve System can not be overestimated. We are facing the development of a banking system in this country, operating under the different laws of 48 states, which will be presided over by a Federal board pretending to supervise a banking system operating under state banking laws, which laws are largely administered through political influence and expediency. The practical operation of such a system will be entirely under the control of the departments of the states and the influence of a Federal board over such a system would be practically negative.

"This bill, in my opinion, is the most important banking bill which has come before the House since the passage of the Federal Reserve act, and its enactment into law is necessary to preserve and more firmly establish the benefits and advantages of that act.

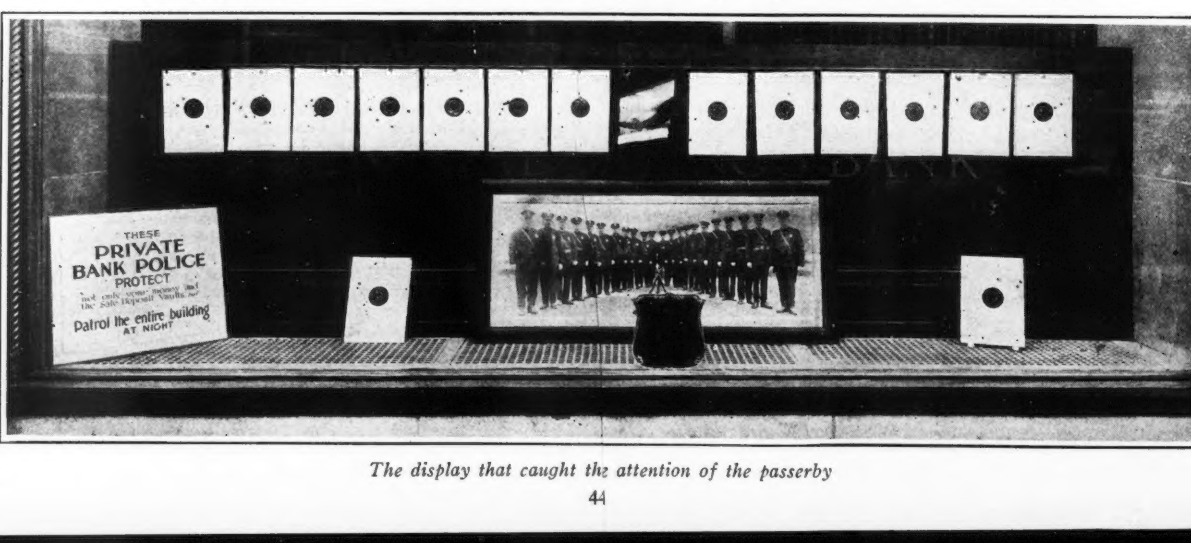
A "Crack-Shot" Bank Window Display

A "CRACK-SHOT" display exhibited by the First National Bank in Detroit has attracted far more than ordinary attention.

At the outset the bank placed in its windows an enlarged photograph of the twenty-two officers in its private police force. The four-foot picture of the armed officers caught the eyes of the passerby, who commented that the sturdy group of fellows looked "ready to shoot."

This suggested the idea of displaying the pasteboard targets, pierced by the officers during their weekly practice shoot on the bank's private revolver range. A dozen of the targets, with bullet-riddled bull's-eyes, bearing mute evidence of the deadly aim of the shooters, were displayed in the window, and it was observed that the attention-arresting power of the exhibit had been doubled.

While the usual window displays had proved interesting for a maximum of about two weeks, the exhibition of the crack-shot force continued to hold crowds about the window for more than five weeks.



The display that caught the attention of the passerby

Solomon Levitan

THE rise of Solomon Levitan from peddler to bank president was cited at the Cleveland Republican Convention as a living example to the youngsters who say there are no opportunities. Mr. Levitan came to this country in 1880, starting life as a farm hand and went to Wisconsin in 1882, where he became a peddler.

Now he is president of the Commercial National Bank and treasurer of the state of Wisconsin.

He was a delegate from Wisconsin at the Convention which named Coolidge and Dawes as the G. O. P. nominees.

Cutting Down The "Float" By Air

REPRESENTATIVE CLYDE KELLY, of Pennsylvania, in discussing in the July number of *Aero Digest* the commercial significance of the newly established 30 hour air mail service between New York and San Francisco, estimates that this faster service will release $150,000,000 a day for use in business by cutting down the "float."

"What is, in effect, a daily mail service between New York and San Francisco, is one of those achievements which are so spectacular that it is almost impossible for the lay mind to grasp its significance from a utilitarian standpoint," Representative Kelly writes. "To be able to cut from three to five business days from the time required to do business by mail between any two industrial centers is a performance of incalculable benefit, and one which, as time goes on and its advantages become better known, is but the forerunner of a network of such a day and night air mail routes which will be established as a result of popular demand throughout the country. One phase only of this expediting system will suffice to prove the worth of the project.

"In the ordinary course of banking business we have what is called the monetary 'float,' that is, checks or other negotiable papers which are, during transit, unavailable for use. A check entrusted to the mails at New York and going by the ordinary route cannot be used as funds until five days later, when it arrives in San Francisco. In other words, it is out of use en route. But, if that same check reaches San Francisco twenty-four to thirty hours after it has been placed in the mails at New York, the recipient has an additional three days in which to make financial turnovers with the money, a thing impossible under the old methods of transit.

"Inasmuch as millions of dollars are thus transported, and it is estimated that the transportation of funds in one form or another to be distributed throughout the various industrial centers between New York and San Francisco amounts to $300,000,000 a day, if half of this can be released by the night air mail, there will be $150,000,000 a day, or $45,000,000,000 a year available for conducting business that is otherwise constantly out of circulation. A network of air mail lines of the same character throughout the country would release, it is estimated, about $300,000,000 a day, an enormous sum, even in a country as rich as the United States. It thus will be readily understood that such an enterprise as the thirty-hour mail service from coast to coast is a most important factor in our industrial life."

On the first eastbound trip of the air mail service planes official announcement was made that the Government realized a profit of 40 per cent. More than 8,000 pieces of mail were carried on the initial trip, this bringing in $2,308.48 to the Postoffice Department. Officials estimate that it will cost the Government 66 cents for each mile flown, and at this rate there was a profit of about $539 on the venture.

Twenty-One Million Bulletins for Farmers

As a publisher, the Department of Agriculture ranks among the first. During the past year, this department printed one publication for every fourth person in the United States. More than 21,000,000 copies of farmers' bulletins alone were printed and sent out to those interested in some phase of agriculture. Of this number, 62 were new bulletins while 574 were reprints.

The department, in its endeavor to aid the farmer by presenting the best methods of raising crops or farm management has issued or will issue, during the fiscal year 1924, the following list of farmers' bulletins:

Alfalfa
Alfalfa Caterpillar
Alfalfa on Corn Belt Farms
Alsike Clover
Angora Goat
Angoumois Grain Moth
Anthrax or Charbon
Apple Orchard Renovation
Apple-Three Caterpillar
Army Worm or "Grassy Worm"—Control
Asparagus

Bagworm: An Injurious Shade Tree Insect
Baking in the Home
Baling Hay
Basket Willow Culture
Bean Growing in Eastern Washington and Oregon and Northern Idaho
Beans
Beautifying the Farmstead
Beekeeping in the Clover Region
Bees
Bermuda Grass
Better Seed Corn
Blackberry Culture
Boll Weevil Problem
Book Lice
Button Clover
Breeds of Dairy Cattle
Breeds of Draft Horses
Breeds of Sheep for Farm
Breeds of Swine
Bridge Grafting of Fruit Trees
Buckwheat
Bulk Handling of Grain
Bur Clover
Business Methods of Marketing Hay

Cabbage
California Oakworm
Canaries—Their Care and Management
Capons and Caponizing
Carbon Disulphid as an Insecticide
Care and Improvement of Farm Woods
Care and Repair of Mowers, Reapers, Binders
Care of Baby Chicks
Care of Food in the Home
Care of Leather
Carpet Grass
Castrating and Docking Lambs
Cattle Lice and How to Eradicate Them
Celery Growing
Cereal Smuts and Disinfection of Seed Grain
Changes Effected by Tractors on Corn-Belt Farms
Cheese and Its Economical Use in the Diet
Cheesemaking on the Farm
Chimneys and Fireplaces
Chinch Bug and Its Control
Choice of Crops for Alkali Lands
Choosing a Tractor (for a corn-belt farm)
Cigar Leaf Tobacco in Pennsylvania
City Home Gardens
Cleaning Milking Machines
Club Wheats
Cockroaches
Collection and Preservation of Insects and Other Material in the Study of Agriculture
Collection and Preservation of Plant Material for Use in the Study of Agriculture
Commercial Bordeaux Mixtures: Values
Commercial Comb Honey Production
Commercial Varieties of Alfalfa
Common Birds in Relation to Man
Common Cabbage Worm
Common Edible and Poisonous Mushrooms
Common White Grubs
Common White Wheats
Community Bird Refuges
Concrete Construction on Livestock Farm
Conserving Corn from Weevil Gulf States
Construction and Use of Farm Weirs
Contagious Abortion of Cattle
Containers for Fruits and Vegetables
Control of American Foulbrood
Control of European Foulbrood
Control of Apple Powdery Mildew
Control of Melon Aphis
Control of the Cherry Leafspot
Control of the Common Mealybug on Citrus in California
Control of Root-Knot
Cooling Milk and Cream on the Farm
Cooperative Bull Associations
Cooperative Marketing Woodland Products
Cooperative Marketing
Corn and Its use as a Food
Corn Cultivation
Corn Earworm
Corn Meal as a Food: Ways of Using It
Corn Root Aphis: Methods of Controlling It
Cost of Using Horses on Corn-Belt Farms
Cost of Using Tractors on Corn-Belt Farms
Cotton Dusting Machinery
Cotton Improvements under Weevil Conditions
Cowpeas: Culture and Varieties
Cowpeas Utilization
Crimson Clover: Seed Production
Crop Systems for Arkansas
Cucumbers
Culling for Eggs and Market
Cultivation of Mushrooms
Cultivation of Peppermint and Spearmint
Curing Hay on Trucks
Cutworms—Control in Corn and Other Crops

Dehorning and Castrating Cattle
Destroy the Common Barberry
Determining the Age of Cattle by the Teeth
Dewberry Culture
Diseases of Apples in Storage
Diseases of Sheep
Diseases of Southern Pecans
Diseases of Watermelons
Disinfection of Stables
Domesticated Silver Fox
Drainage of Irrigated Lands
Drug Plants Under Cultivation
Dry Farming for Better Wheat Yields
Duck Raising
Durum Wheats

Economic Value of North American Skunks
Economical Use of Meat in the Home
English Sparrow as a Pest
Equipment for Farm Sheep Raising
Eradication of Ferns from Pasture Lands
European Corn Borer and Its Control
Everbearing Strawberries

Factors of Success of Farming in the South
Fall-sown Grains in Virginia and Maryland
Fall-sown Oats
False Chinch Bug—Measures for Control
Farm Bookkeeping
Farm Dairy Houses
Farm Garden of the North
Farm Home Conveniences
Farm Household Accounts
Farm Inventories
Farm Kitchen as a Workshop
Farm Lands Available for Settlement
Farm Lease Contract
Farm Manufacture of Unfermented Apple Juice
Farm Practices That Increase Crop Yields in Kentucky and Tennessee
Farm Reservoirs
Farm Sheep Raising for Beginners
Farm Slaughtering and Use of Lamb and Mutton
Farmers' Telephone Companies
Feeding Cottonseed Products to Livestock
Feeding Hens for Egg Production
Feeding of Dairy Cows
Feeding of Horses
Fermented Pickles
Fiber Flax
Field Mice as Farm and Orchard Pests
Fig Growing in the South Atlantic States
Fleas and Their Control
Fly Traps and Their Control
Field Pea
Fire Prevention and Fire Fighting on Farm
Floors and Floor Coverings
Food for Young Children
Food of Some Well-Known Birds
Foods Rich in Protein
Foot-and-Mouth Disease
Forage for Cotton Belt
Foreign Material in Spring Wheat

Forestry and Farm Income
Frames as a Factor in Truck Gardening
Fresh Fruits and Vegetables as Food
Frost and the Prevention of Damage from It

Game Laws for 1922
Garden Web-Worm in Alfalfa Fields
Goldenseal Under Cultivation
Good Proportions in the Diet
Good Seed Potatoes, How to Grow Them
Goose Raising
Grading of American Upland Cotton
Grading, Packing, and Shipping Cantaloupes
Grains for the Dry Lands of Central Oregon
Grains for the Utah Dry Lands
Grains for Western North and South Dakota and Eastern Montana
Grape Propagation, Pruning and Training
Grasshopper Control, Cereal and Forage Crops
Grasshoppers—Sugar Beets and Truck Crops
Green Bug or Spring Grain Aphis
Greenhouse Construction and Heating
Green Manuring
Growing and Curing Hops
Growing Annual Flowering Plants
Growing Beef on the Farm
Growing Cherries East of Rocky Mountains
Growing Corn in the Southeastern States
Growing Crimson Clover
Growing Egyptian Cotton in Salt River Valley, Ariz.
Growing Fruit in Great Plains Area
Growing Fruit for Home Use
Growing Hard Spring Wheat
Growing Hay in South for Market
Growing Peaches: Sites and Culture
Growing Peaches, Varieties, etc.
Growing Sugar Cane for Sirup
Gullies: How to Control Them

Handling, Grading and Marketing Potatoes
Handling and Loading Southern New Potatoes
Hard-Red Spring Wheat
Hard-Red Winter Wheat
Harvesting and Storing Ice
Harvesting Hay with the Sweep Rake
Harvesting Soy Beans for Seed
Haymaking
Haystackers: Use in the North and South
Hemorrhagic Septicemia, Stockyards Fever. etc.
Hints to Poultry Raisers
Hog Farming in Southeastern States
Hog Houses
Hog Lice and Hog Mange
Hog Pasture for Southern States
Home Canning of Fruits and Vegetables
Home Drying of Fruits and Vegetables
Home Gardening in the South
Home Laundry
Homemade Fireless Cookers and Their Use
Homemade Fruit Butters
Homemade Silos
Home Production of Onion Seed and Sets
Home Storage for Vegetables
Honey and Its Use in the Home
Horse Breeding Suggestions for Farmers
House Ants: Kinds and Methods of Control
House Centipede
House Cleaning Made Easier
House Fly
How Insects Affect Cotton Plant—Control
How Insects Affect the Rice Crop
How to Attract Birds in East Central States
How to Attract Birds, Middle Atlantic States
How to Attract Birds in Northeastern United States
How to Detect Outbreaks of Insects
How to Get Rid of Rats
How to Grow Alfalfa
How to Grow an Acre of Corn
How to Grow an Acre of Potatoes
How to Make Cottage Cheese on the Farm
How to Select Foods
How to Select Foods: II. Cereal Foods
How to Select a Sound Horse

Illustrated Poultry Primer
Important Cultivated Grasses
Information for Fruit Growers About Insecticides
Insect and Fungous Enemies of the Grape
Insect Enemies of Chrysanthemums
Insects Injurious to Deciduous Shade Trees
Irrigation of Alfalfa
Irrigation of Grain
Irrigation Practice in Rice Growing

Judging Beef Cattle
Judging Sheep

Larger Corn Stalk Borer
Larkspur or Poison Weed
Laws Relating to Fur Animals, 1922
Laying out Fields for Tractor Plowing
Leafspot: A Disease of Sugar Beets
Leopard Moth: An Enemy of Shade Trees
Lespedeza as a Forage Crop
Lime Sulphur Concentrates
Losses from Selling Cotton in the Seed

Macadam Roads
Making Butter on the Farm
Making and Feeding Silage
Making Woodlands Profitable in Southern States
Management of Growing Chicks
Management of Muck-land Farms in Northern Indiana and Southern Michigan
Management of Sandy Land Farms
Marketing the Cowpea Seed Crop

Marketing the Early-Potato Crop
Measuring and Marketing Farm Timber
Method of Analyzing Farm Business
Method of Eradicating Johnson Grass
Method of Making Sugar-Beet Sirup
Methods of Protection Against Lightning
Milk Fever: Its Treatment
Milk Goats
Milo a Valuable Grain Crop
Moles as Pests and as Fur Producers
Motor Trucks on Corn-Belt Farms
Mosquitoes—Remedies and Preventives
Mushroom Pests and How to Control Them
Muskrat as Fur Bearer, with Notes on Its Use as Food

Natural and Artificial Incubation of Eggs
Natural and Artificial Brooding of Chickens
Neufchatel and Cream Cheese
Nicotine Dust for Control of Truck Crop Insects
Nutritive Value of Food

Okra: Its Culture and Uses
One-Register Furnace
Onion Diseases and Their Control
Onion Culture
Operating a Home Heating Plant
Orchard Barkbeetles and Pinhole Borers
Organization and Management of Cooperative Live-Stock Shipping Association
Organization of Drainage Districts
Outdoor Wintering of Bees
Oyster-shell Scale and the Scurfy Scale

Parasites and Parasitic Diseases of Sheep
Parcel Post Business Methods
Peach Borer: How to Prevent or Lessen
Peanut Growing for Profit
Pecan Culture
Permanent Fruit and Vegetable Garden
Pit Silos
Plain Concrete for Farm Use
Plans for Rural Community Building
Planning the Farmstead
Planting and Care of Street Trees
Poison Ivy and Poison Sumac
Pork on the Farm: Killing, Curing, etc.
Potato Culture Under Irrigation
Potato Production in the South
Potato Storage and Storage Houses
Poultry Houses
Poultry Management
Practical Information for Beginners in Irrigation
Practical Hints on Running a Gas Engine
Prairie Rice Culture in the United States
Preparation of Barreled Apples for Market
Preparation of Bees for Outdoor Wintering
Preparation of Fowls for Exhibition
Preparation of Fresh Tomatoes for Market
Preparation of Peaches for Market
Preparation of Strawberries for Market
Preparation of Vegetables for the Table
Preservative Treatment of Farm Timber
Preserving Eggs
Preventing Wood Rot in Pecan Trees
Principles of the Liming of Soils
Production of Clean Milk
Production of Cucumbers in Greenhouses
Production of Late or Main-Crop Potatoes
Production of Maple Sirup and Sugar
Production of Peas for Canning
Propagation of Plants
Proso or Hog Millet
Pruning
Purple Vetch

Quack Grass

Rabbit Raising
Rabbits in Relation to Trees and Crops
Rabies or Hydrophobia
Rag-doll Seed Tester
Raising Guinea Pigs
Raising Sheep on Temporary Pasture
Raspberry Culture
Rats and Mice
Red Clover
Red-Necked Raspberry Cane-Borer
Red Spider on Cotton, How to Control It
Removal of Stains from Clothing
Renting Dairy Farms
Rhodes Grass
Rice as Food
Road Drag and How Used
Rodent Pests on the Farm
Root, Stalk, and Ear Rot Disease of Corn
Roses for the Home
Rough-Headed Corn-Stalk Beetle
Round-headed Apple-Tree Borer
Rye Growing in the Southeastern States

San Jose Scale and Its Control
Saving Labor by Hogging Down Crops
Sawflies Injurious to Rose Foliage
School Garden
School Lunches
Seed Marketing Hints for the Farmer
Seed Peas for the Canner
Seed Potatoes and How to Produce Them
Selecting a Farm

Sewage and Sewerage of Farm Homes
Shall I Buy a Tractor? (for a corn-belt farm)
Sheep Killing Dogs
Sheep on Irrigated Farms in the Northwest
Sheep Scab
Sheep Tick: Its Eradication by Dipping
Shipping Citrus Fruits in Gulf States
Silver Fish or Slicker
Simple Trap Nest for Poultry
Simple Way to Increase Crop Yields
Slash Pine
Soft Red Winter Wheats
Solving Cranberry-Insect Problems
Some Common Disinfectants
Some Facts About Malaria
Sorghum Sirup Manufacture
Southern Corn Root-worm and Control
Soy Bean: Its Culture and Use
Spinose Eartick, Treatment for
Spraying Citrus Fruits
Spraying for the Alfalfa Weevil
Spraying Peaches—Brown Rot and Curculio
Squab Raising
Stable Fly
Standard Broom Corn
Standard Varieties of Chickens: IV, V
Steam Sterilizer for Farm Utensils
Stock Poisoning Death Camas
Stored Grain Pests
Strawberry Culture in the East
Strawberry Culture in the West
Strawberry Culture in the South
Strawberry Varieties in the United States
Striped Cucumber Beetle and How to Control It
Study of Agriculture
Sudan Grass
Sugar and Its Value as Food
Swarm Control
Sweet Clover: Harvesting
Sweet Clover: Growing the Crop
Sweet Clover: Utilization
Sweet Potato Diseases
Sweet Potato Growing
Sweet Potato Storage
Sweet Potato Weevil and Its Control
Swine Management
System of Farm Cost Accounting

Terracing Farm Lands
Testing Farm Seeds in Home and School
Texas or Tick Fever
Tobacco Beetle and How to Prevent Loss
Tobacco Budworm and Its Control
Tobacco Culture
Tobacco Curing
The Argentine Ant as a Household Pest
The Asparagus Beetle and Their Control
The Aspen Borer: How to Control It
The Avocada: Its Insect Enemies
The Bedbug
The Border Method of Irrigation
The Brown Spot Disease of Corn
The More Important Apple Insects
The Native Persimmon
The Pear and How to Grow It
Timothy
Tomatoes for Canning and Manufacturing
Tractors on Southern Farms
Transferring Bees to Modern Hives
Tree Planting in the Great Plains Region
Trees for Town and City Streets
Tree Surgery
True Army Worm and Its Control
Tuberculosis of Fowls
Tuberculosis in Livestock

Unfermented Grape Juice—How to Make It
Use of a Diary for Farm Accounts
Use of Paint on the Farm
Uses of Rural Community Buildings
Utilization of Alfalfa
Utilization of Flue-Heated Tobacco Barns for Sweet-Potato Storage

Varieties of Hard Spring Wheat
Velvet Bean
Vetches

Waste Land and Wasted Land on Farms
Water Systems for Farm Homes
Weeds: How to Control Them
Weevils in Beans and Peas
What Tractors and Horses do on Corn-Belt Farms
White Ants as Pests in the United States
Wild Onion: Methods of Eradication
Windbreak as a Farm Asset
Winter Wheat Adapted to Eastern United States
Wintering Bees in Cellars
Wooly White Fly in Florida Citrus Groves

The Responsibility

"THE government has set up several instrumentalities of help, and you are the ones who must bring these facilities to your respective communities," said George R. James, member of the Federal Reserve Board, in talking to the members of the Arkansas Bankers Association. "Every one of you likes to think of yourselves as being one of the leaders of your community—and you are. But with that leadership comes a sacred and solemn responsibility. You are custodians of the credit of that community, and you ought to think far more about the community than about the question of making a dividend or making money for the institutions that you are heading."

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Panko Mativi Sokolowski

PANKO SOKOLOWSKI washed his way to a fortune. A farmer in the old country, Sokolowski came to the United States thirteen years ago. He got a factory job, married—and lost his job. Then he acquired a sponge, belt, pail and "squeegee" and started out as a window cleaner.

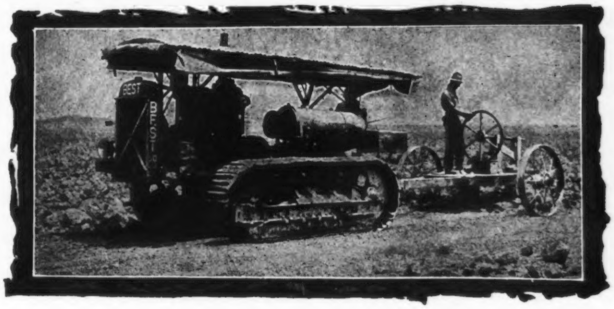
He found business good, saved his money and invested it. First he bought his own home, bought and sold more real estate. Recently he bought the $100,000 Clintonia Apartments in the fashionable section of Newark, N. J.

Innocent Bystanders

THE First National Bank of St. Louis in its review of business conditions expresses the opinion that some of the factors blamed for business recession should be exonerated from contributing to present conditions.

"Probably the most confusing factor," it observes, "in the present business situation is the variety of explanations that have been offered to account for the slowing down that has been noticeable in recent months. It appears almost impossible to eliminate from business comment the idea that a business recession can occur for any other cause than as a result of the mischievous influence of some particular group or factor. The present readjustment has been attributed to politics, psychology, taxes, government interference, the weather and a host of other factors that, at best, are more probably innocent bystanders than culprits in the situation. If we brush aside all prejudices and look at the fundamentals of the situation, it is not particularly complex; 1923 was a year of extraordinary business activity as measured by volume in practically every line of business. We reached record volumes in bituminous coal production, in steel and iron, in the building industry, the automotive industry, the railroad equipment industry and in other important lines of business. Sales at retail and wholesale in most lines were likewise at high tide. The duration of the high rate of activity was rather longer than usual, and the recession that has set in has been the logical accompaniment to such activity. Many of us do not appreciate the tremendous volume of business that was done last year because profits as compared with war-times were considerably smaller, and because plant equipment was materially larger. This fact, however, does not change the situation insofar as the satisfaction of demand is concerned. The surprising thing in the situation is not that business is now receding, but rather that we were able to sustain the high degree of activity since the latter part of 1922, without experiencing a recession sooner, especially in view of the mixed price movements during this period. We are experiencing at the present time a readjustment in general business which in all probability would have occurred irrespective of the unsettled political situation, tax readjustment, the weather or anyone of the factors that have been brought into prominence as being responsible for the slowing down of business."

John D. Rockefeller celebrated his eighty-fifth birthday on July 8. A man of untold wealth, Mr. Rockefeller said that his supreme thought on this day was "one of inexpressible gratitude for the opportunity which life has brought me of being of service to my fellow man."



Keystone View

James Healy

THERE are many ups and downs on the stock exchange. James Healy has gone up the ladder. He started out as an office boy in a brokerage house. Not long ago announcement was made that James Healy had bought a seat on the New York Stock Exchange.

Shipping Board Merges Routes

THE Shipping Board has made progress under its program for the reduction of the number of trade routes it is maintaining with government-owned merchant vessels. It has consolidated the services maintained by several operators from Atlantic ports to the United Kingdom, and has reduced from nine to seven the number of managing agents operating government-owned tonnage from the Gulf to the Continent.

Recently announcement was made that the Board had approved a merger of the Atlantic-Gulf-Orient-Dutch East Indies operators so that two operators instead of three will handle the ships. The number of vessels in the trade was cut down from twenty-eight to twenty-four. A saving of $335,000 will be realized through the merger, it is stated.

Three companies, which have been running ships from South Atlantic ports to the United Kingdom and Continent, will combine into a single agency. The Board expects to effect a saving of $250,400 a year by this step. In the North Atlantic, it has decided to eliminate one of the two companies which have been operating Shipping Board vessels to Dutch and French Atlantic ports.

By doing away with competing services the Board hopes to reduce its operating expenses and intends to follow methods that one big commercial operator would adopt.

A new contract for the remuneration of its operators has been proposed.

Why a Presidential Year Affects Business

THERE would seem to be no logical reason why the choice of a President, a lower house of Congress and one-third of the upper house should disturb the regular business of the country, the July Survey of the National City Bank of New York, edited by George E. Roberts, states. The government has been functioning under the Constitution over a period of about 140 years. The country has prospered greatly in that time and the benefits of prosperity have been so widely and constantly distributed as to demonstrate that the general system of free enterprise and industry under which it has been working produces good results for all.

The examples afforded in every community of the rise of individuals from obscure beginnings to high and responsible positions in business and community life is proof that equality of opportunity exists in a very substantial degree.

There is evidence in abundance that although there are inequalities in individual holdings of property, the increase of wealth, however held, is beneficial to all classes. In other words, the aggregate of private wealth cannot increase without general benefits resulting therefrom. It is sound public policy therefore to encourage in all the people the natural instinct for the production and accumulation of wealth, and to maintain the incentives to personal effort that have been so influential for industrial and social progress in the past.

MOST of the questions that are referred to in political speeches and conventions relate to industry and business, and there appears to be no reason for any radical departure upon these matters from the public policies of this country as maintained heretofore. While it would be too much to say that there is nothing that the government can do to promote the prosperity and welfare of the country, two general propositions may be safely stated: First, that the government has much greater power to injure the country through bad legislation affecting industry and business than to benefit it through legislation touching those subjects, and, second, that there are greater opportunities to benefit the country by repealing laws now on the statute books, thus correcting past mistakes, than by passing new laws. Industry and business have little to gain from legislation. Prosperity comes by the free and voluntary activities of individuals in industry and the exchange of services, and the government can do little beyond facilitating these activities. It has no creative powers except as it draws on the individual powers of its citizens, and the latter are able to organize and direct their own efforts much more effectively than the government can do it. If anything has been demonstrated by experience it is that political governments are not successful in the management and direction of business affairs.

POLITICS, however, is an inevitable factor in the national life. There must be government, and to have it there must be elections and along with elections rival parties and candidates, and all the strife, recrimination and competitive promises that characterize our campaigns. It is these conditions that tend to make politics disturbing to business. Business desires stability and natural progress by growth and development. It looks for improvement in social conditions by research, invention, industry, savings, accumulations of wealth which increase the productive powers of the population, realizing that every gain along these lines quickly disseminates benefits throughout all groups and classes. Its faith and policies are based upon the proposition laid down by General Francis A. Walker, one of the most sane and eminent economists this country ever has produced, to-wit: that under the existing competitive system the common man is the residuary legatee of all the achievements of industry and science.

The political program, however, is inevitably different. Its faith is not so much in growth or development, as in change. The program of the business world would afford scant opportunity for political and governmental activities. It would afford small scope for political speeches or campaign promises. How could the "outs" ever oust the "ins" by simply preaching industry and evolution? How could an ambitious individual ever make a public career if there was not somebody or something to be immediately overturned? Politics is naturally dynamic. It must promise to do something. It works by artificial means. There is constant criticism of the things that are and the temptation to competitive promises, the most appealing of which are promises of benefits by changing the flow of wealth in some manner — redistribution, taxation, restraint or seizure—by interfering in some way with the natural trend or development of affairs.

There is never-ending pressure for new activities by the government in the field of business and political conventions which meet under conditions highly unfavorable to native action virtually commit the law-making bodies to policies which should not be entered upon without the most careful consideration.

THIS characteristic of politics has become more marked in recent years, as the old questions relating to the form of government, who shall participate in it, etc., have been gradually settled. The questions uppermost in politics now are more directly related to business than in the past. They are more immediately vital. They require for correct settlement a knowledge of economic principles and of past experience. Furthermore, they require in the body of the people certain qualities of character which are not generally highly developed, such as stability, toleration, mutual confidence, the spirit of cooperation, impartiality as between one's own interests and the interests of others, self-restraint, and resolution to forego pleasure in the present for the sake of remote benefits. The progress of society is dependent upon these qualities, and unfortunately our political campaigns are not calculated to develop them. Rather, they tend to excite suspicions, provoke antagonisms, disrupt essential relationships and prevent that harmonious cooperation which the business community finds to be necessary to general prosperity.

Misrepresentation concerning common

economic facts and conditions is upon an alarming scale, for there is danger that the mere repetition of falsehoods will eventually cause them to be accepted without examination. Specific denial, refutation or exposure is overwhelmed by the volume of general denunciation and clamor. Attacks upon rival political leaders or parties are of minor concern, but they become more serious when directed mainly against the business organization of the country and the existing order of society.

The talk about a "predatory class," "privileged class," "governing class," the "exactions of wealth," "downtrodden masses," "oppressed millions," "organized wealth," "Wall Street domination," etc., appears more or less in speeches on all sides, and certainly from many persons who know better than to utter such nonsense, and that is the most disquieting thing about it. It is the constant wash of this torrent that threatens to undermine the very foundations of society. The social organization has become so complex that not many can be familiar with the functions of all its parts, and this fact exposes it to misrepresentation. Of necessity it rests largely upon mutual confidence, and the persistent and reckless repetition of such outcries has come to be the outstanding feature of our political campaigns.

IT is evident that the Federal Reserve system will be one of the objects of this kind of attack in the coming campaign. The Reserve system is an embodiment of the lessons taught by the experience of the world in banking and monetary science. The principles upon which it is organized are accepted by students of the subject in all countries. They were set forth in the Aldrich report, upon which both of the leading political parties were represented, adopted in the Federal Reserve act, put into force by a Democratic administration and continued by a Republican administration, but the radical wings of both these parties join with the radicals of all out-of-doors in attacking the system. The administration of the system has been represented as forcing deflation, although the loan-records refute the charge. Its assailants disregard the facts, relying upon repetition and denunciation to deceive the many not in position to know the facts. A Congressional inquiry exposed the falsity of these charges and left them without a shred of support, but the outpouring of falsehood has not slackened.

The reason for this persistence is that the radical attack has always centered upon the "money power." The idea that the bankers control the money supply and use it as a means of exploitation and oppression has been its main weapon in the past, but the old stuff about the iniquity of the gold standard and the simple virtues of fiat money has become unavailable in view of the efforts of all Europe, including Soviet Russia, to get back to the gold standard after a surfeit of cheap money. Hence the Federal Reserve system must be linked up with Wall Street and the "money power" in place of the gold standard.

Unprofitable Accounts

(*Continued from page* 8)

that this unfortunate state of affairs likely would occur when the bubble burst and the volume of deposits became more nearly normal, or possibly subnormal.

"After reviewing this future possibility, I studied more closely the bank's internal affairs, with the idea of finding a remedy. To be frank, I was afraid to increase my gross earnings by taking on additional loans which might prove a future embarrassment. Therefore I had to fall back upon economy for a solution. Upon analyzing my depositors' accounts, I found there were entirely too many 'star boarders.' In the end, by one means or another, I was able to raise the average account from about $320 to approximately $450.

"It is my firm belief that in the average bank 60 per cent of its checking accounts are carried at a loss."

If Account Is a Loss

FROM the illustrations given, the necessity of an intelligent analysis of the accounts now being carried is apparent. Effective action cannot very well be taken by banks individually. In a very few cases it has been successful.

Perhaps many bankers are thinking: "Aren't we all making money?" and their answer is, "Yes, we are," but sooner or later, when conditions in our country are finally readjusted, most of us will want to know quickly and definitely just where we are. Personally I believe that every account ought to stand on its own merit. If an account is a loss to the bank, let the depositor do any of the following:

- Increase his balance;
- Pay a greater interest rate when borrowing money;
- Do business with other departments of the bank;
- Bring in new business;
- Pay a fair service charge, or
- Close or transfer his account.

Banks cannot act very well individually. Competition is altogether too keen, and few bankers care to eliminate suddenly a large percentage of their accounts. It is clear, then, that united action is the real remedy. There must be more cooperation, and this cooperation can be brought about through the member banks of our clearing house associations. So far we have a record of more than sixty clearing houses adopting a rule compelling their member banks to make a service charge, and we believe this is just a beginning for greater cooperation among the banks of the country through their local clearing houses towards eliminating the losses occurring daily through unprofitable accounts.

The business of the bank is to serve the public but the best conception of service is in so conducting the bank that it constantly grows stronger, thereby being able to constantly enlarge its sphere of usefulness to its community.

Kansas Bankers Association's Code of Ethics

A COMMITTEE of Kansas Bankers, headed by C. L. Brokaw, President of the Commercial National Bank of Kansas City, Kan., recently formulated a code of ethics which has been formally adopted as the code of the Kansas Bankers' Association. The rules of conduct, and the ideals of banking as expressed by the bankers of Kansas are as follows:

The bankers of Kansas, sensible of their great responsibilities in the administration and conservation of the interests committed to them, and conscious of the confidence reposed in them establish and pledge themselves to maintain the following essential standards of conduct:

The soundness, usefulness, prosperity and future of banks depend upon the honor, integrity and fidelity of managing officers and their associates. The name "Banker" must be and remain a synonym and pledge of honor. He merits condemnation who, for personal gain, subordinates and corrupts the name and uses his position to attain selfish ends, and still greater condemnation rests upon the banker who violates in any way the trust reposed in him.

Communications between the banker and the customer should be privileged, and information given the banker in confidence by his customers should be held inviolate.

IT is required of everyone who engages in the business of banking that he become thoroughly familiar with the basic principles of the business. He should understand economics, commercial law, credits, the history of banking and finance, and the best banking practice. He should not assume the responsibility of managing a bank without knowing these fundamental things. He should qualify himself by proper study and by securing full information to serve efficiently his institution and the public. Ignorance of these fundamental principles and duties will not excuse anyone.

A banker should never accept personal profit from any of the bank's transactions with its customers. A banker should not use the cash or credit of his bank for the promotion of his own personal business enterprises or of concerns in which he is largely interested. He should only sell or recommend for investment to his customers securities of the highest character and never anything of a speculative nature or securties of any concern in which he has a personal interest or for personal profit. A banker should not charge usurious interest.

A banker deals with the money and credits of his community. Its aggregate tangible wealth in the form of money is deposited in his care as trustee. He must use it for the good of his depositors and the community, as well as for the good of his stockholders.

WHILE there should be a reasonable profit to shareholders, yet service to the public is the paramount justification for the existence of a bank and the greatest service which a bank can render to a community is to conduct a good, safe, sound bank, adhering to recognized principles, and thus assure the stability of the institution.

Bankers and banks should be interested in the development of the legitimate enterprises of their respective communities and know that what is best for the customer is best for the bank. Being intrusted with the cash and credits of the community involves a deep responsibility as to their proper use.

A banker should not "accept a deposit until the prospective depositor's character and credit have been carefully considered. A banker should not receive deposits from known violators of the law or loan money to law violators, and the banker who regards the collateral as of more value than the character of the man who owns the collateral is helping to break down the moral tone of his community."

Strict conformity to law and obedience to the regulations prescribed by public authorities charged with bank supervision, as well as good citizenship, are required of all bankers. A banker should ever have a high regard for law and maintain the highest standard of good citizenship.

The cultural and refining quality of friendliness is an essential part of the moral equipment of a banker.

Comradeship, the spirit of cooperation which actuates a banker to associate with his fellow bankers in social and business relations and organizations, is a grace which becomes the banker, adds to the satisfaction of business life and the esteem in which

he is held by other bankers; contributes to his success in business and extends the circle of his influence.

THE banker errs who claims for himself a monopoly of the business in his community. Competition is legitimate and, within due bounds, helpful and should be recognized and welcomed. A good banker will always refrain from speaking ill of his competitors.

The banker should be tolerant and considerate of the opinions and feelings of his fellow bankers, according to them all the rights and privileges which he claims for himself, and with open mind seek to avail himself of the benefits to be derived from the knowledge and experience of others and from the wisdom which comes of a multitude of counsel.

The banker should at all times be courteous and considerate in his relations with individual customers and show deference to their opinions and wishes so far as is not inconsistent with law or with well established rules of good, conservative banking.

Officers and employees associated in bank administration, actuated by the highest ethics of the profession, should not fail to discharge their various duties in a right and generous spirit. An officer will exercise his prerogatives as one having responsibility and rightful authority, yet in a dignified manner without oppression or display of superiority, always thoughtful of subordinates, ever extending to them due encouragement for services worthily performed, keeping in mind their future welfare and stimulating them to study the business of banking with the thought of fitting themselves for executive positions. He will always have in mind the best welfare of the clerical force.

A certain *noblesse oblige*, an obligation of honorable and generous behavior in the sight of God and man, is impressed upon all who bear the name and wear the badge of this profession.

The Golden Rule, as beautiful and comprehensive as when it was uttered by the Great Teacher, remains and will continue throughout all time to be the measure of man's duty to man: "Therefore, all things whatsoever ye would that men should do unto you, do ye even so to them; for this is the law and the prophets."

Penalty—Violation of any of these ethical standards should disqualify the guilty party from serving as an officer in a bank or from fellowship or association with other bankers.

More German Notes

THE total outstanding Reichsbank note circulation on June 30 was 1,126,310,573,000,000 millions of marks. On July 31, 1914—just before the outbreak of the war—the note circulation was only 2,000,422,000 marks. This had grown to 10,952,260,000 during the week that the armistice was signed.

The note circulation of the Reichsbank on last June 7 was 954,251,130,000,000 millions of marks, but this declined to 920,347,753,000,000 millions on June 23, increasing during the last week of June to the high figure of 1,126,310,573,000,000 millions of marks.

E. W. Howe On Bankers

"AMONG first class men, bankers rank first, for the reason that they are drawn from the ranks of the best business men of all classes; nearly all bankers have been promoted from other callings, and in these callings they have been distinguished more than the average for intelligence and character," E. W. Howe, the Kansas editor, writes in his monthly.

"It is impossible for a man to make a success as a banker unless he has a reputation for intelligence and uprightness. People are extremely touchy about their money, and their first demand of a banker is that he not only be honest, but smart.

"As a general rule, bankers teach morality as steadily as pastors of churches. They are the balance wheel of sound and necessary business. Therefore, I have no hesitancy in saying bankers are our best class of men, taking their average from year to year and from century to century."

Retirement of National Bank Notes

A STATEMENT of interest to all national banks, particularly those which have circulation secured by United States 4 per cent bonds of 1925, was recently issued by the Treasury Department:

The statement follows:—"The Secretary of the Treasury announced today that the Treasury contemplated calling for redemption and payment on the first optional payment date, Feb. 1, 1925, the entire outstanding issue, consisting of $118,489,900 of the 4 per cent loan authorized by the Act of Jan. 14, 1875, and dated Feb. 1, 1895. The greater part of these bonds are now used to secure national bank circulation. It is not expected that the retirement of this amount of national bank circulation will have any effect on the total circulation outstanding, since February reserve notes will be available to take their place."

Of the $118,489,900 of the 4 per cent loan of 1925, approximately $87,000,000 is on deposit with the Treasury Department as security for circulating notes. The redemption of this issue of bonds means the compulsory retirement of practically all of the circulation secured thereby. Only the two other bonds, the 2 per cent Panamas of 1936-38 and the 2 per cent consols of 1930, bear the circulation privilege. The total of these two issues outstanding Oct. 31, 1923, was $674,625,000 and all but $10,000,000 of that amount was then on deposit in the Treasury Department as security for circulation and public monies.

The Federal Reserve Act gave to national banks the privilege of retiring their circulation, but in November, 1923, the outstanding total was $743,000,000. This exceeded by about $3,000,000 the greatest volume of national bank notes outstanding and secured by United States bonds at any time since 1914, despite the withdrawal of $120,000,000 of bonds bearing the circulation privilege.

There is an unmistakable desire on the part of the majority of national banks to carry circulation, though this latest action by the Treasury Department seems to indicate a purpose ultimately to issue all bank notes through the Federal Reserve System. At the present time the national banks issuing circulation represent about 90 per cent of the total number of such banks, though the notes outstanding equal only about 56 per cent of the aggregate capital. Last year the volume of circulation was increased by $10,000,000.

At the time of the last redemption of the eligible bonds, the Secretary of the Treasury sent to each holder of such securities a blank which, when properly executed, authorized the Comptroller of the Currency to withdraw the bonds and deliver them for redemption. It also instructed the Treasurer of the United States to retain such amount as was needed to redeem the circulation outstanding and remit the balance to the bank. Whether or not the same procedure will be followed in 1925 is not known at this writing, though instructions doubtless will be issued by the Secretary of the Treasury in due time.

Major Problems

(Continued from page 20)

wounded and kidnapped foreigners. Foreigners in the Treaty Ports are comparatively safe so far as life is concerned, but they have a mountain of trouble to carry."

The volume of trade in the territory affected, great as it is, may well be one of our lesser concerns, when we stop to consider the effect upon the world of the misdirection of the energies of millions of Asiatics.

Tax Reduction at First Hand

ONE of the most popular pieces of current reading matter during the last year or two has been the resolution adopted in all sorts of conventions, big and little, calling for economy in government expenditures and the reduction of taxes. Everybody reads it, everybody likes this piece of literature. But there are hundreds of thousands of people who, while heartily subscribing to the petition for lower government taxes, forget the taxes which they impose upon themselves. The daily *wants* of the average man of this generation are perhaps as 50 to 1 compared with those of three generations ago. The list of each year is longer than that of the one which preceded it, but his daily *needs* would make a shorter list. He could, if he would, reduce some of the taxes he imposes upon himself by his personal demands, for many of our wants are after all mere distractions which add nothing to contentment and little to usefulness and understanding.

The reduction of taxes might begin with the reduction of those personal taxes which each applies upon himself.

Convention Calendar

STATE

Date		Associations	Place
July	16-17	West Virginia	Bluefield
July	17-19	Montana	Bozeman
Sept.	4	Delaware	Rehoboth
Sept.	11-12	Indiana	Indianapolis
Sept.	12-13	New Mexico	Albuquerque
Sept.	—	Kentucky	Louisville
Sept.	—	Wyoming	Riverton
Oct.	22-23	Nebraska	Omaha
Oct.	24-25	Arizona	Prescott

OTHER ASSOCIATIONS

July	15-18	American Institute of Banking, Baltimore, Md.
Sept.	22-24	Investment Bankers Association, Cleveland, Ohio
Sept.	29-Oct. 2	American Bankers Association, Chicago, Ill.

Two and One-Half Billions Invested in Canada

By WILLIS G. NASH

Vice-President, Irving Bank—Columbia Trust Co., New York

THERE are no two nations on earth which, though without any common political bond, are joined by so many ties as Canada and the United States. Ties of blood, of language, of common interests, of ideals, of affection. An examination of the political and diplomatic map of the world today will readily show that our two countries are a quite exceptional pair of brothers in the family of nations. Compare the record of the last 100 years along our 4000-mile boundary line with that of various contiguous South American countries, between whom there exists also an identity of language, of civilization and of racial history. While wars and bickerings without number have marked their checkered relationships, an era of unbroken amity has been enjoyed by our two great countries.

When I look at the long line from St. John to Vancouver, where for more than six score years there has never been a fort or a sentinel, I wish that this line might be almost as invisible in our daily business life as the lines of demarcation between New York, Pennsylvania, New Jersey and our other states. Just as our East and West and North and South all prosper because of untrammeled commerce, so do the fast growing provinces of Canada. There are no two countries on earth between which there has been, is, or will be so little trade rivalry. Our two banking systems are supplementary to each other rather than competitive. Securities and credits go back and forth across the frontier.

ABOUT two and a half billions of American dollars are now invested in Canadian enterprises. Of this amount about $1,200,000,000 is in bonds and the balance in stock holdings, mortgages, farms, industrial enterprises and private loans. Americans in the last few years have opened upward of 700 branch factories in the Dominion. When I look around at conditions in other lands I am glad indeed to see so much practical interest on the part of our business men in the development of this country. Our Canadian investments in future bid fair to be on an even larger scale and have already gone substantially beyond those of Great Britain. It is interesting to note that in regard to her foreign trade, Canada is a creditor to Great Britain, debtor to the United States and a creditor to the rest of the world. The amazing size of this trade deserves particular emphasis. Last year Canada's exports equaled one-fourth the value of those of the United States, a truly marvelous total, considering that Canada's entire population is only equal to that of Pennsylvania. To give the same picture differently, Canadian exports last year amounted to $113 per capita against $37.01 in the United States. For her imports the corresponding figures were $100 per capita as compared with $33.50 on the other side of the border. The bigger the figures become in future years, the better pleased will we Americans be.

Canada is evolving rapidly. Last year she sold to the United States $416,000,000 worth of goods—more than we bought from either Great Britain or Cuba, which stood second and third in rank among the countries selling to us. Canada now stands first! And as her industrial development goes on apace she will more easily keep this pre-eminence. Electric power is now exported. Engineers assert that Canada possesses a greater fresh water area than all the rest of the world put together. You may not know that the first high tension transmission of electricity in the whole British empire was accomplished in 1895, between a station on the Batiscan River, Quebec, and the town of Three Rivers, not far from Montreal. This small but early beginning was prophetic of the swift development that followed. Today over 3,000,000 operating horsepower is developed, and there are over 21,000 miles of transmission and distribution systems scattered from Nova Scotia all the way to the Yukon.

BUT even this magnificent growth is only a herald of bigger things to come. We Americans are not worried by the probability that our coal exports northward will fall off sharply in future years, because, by way of compensation, there will be instead a larger demand for electrical equipment. There must be change wherever there is progress. Approximately 20 per cent of all American foreign investments are in Canada.

It is particularly appropriate to exchange a few thoughts about the part played by bankers in augmenting the pleasant and profitable business relationships between these two countries. Between the Canadian and American banking systems there exist some very close similarities and some extraordinary unlikenesses. The interesting thing is that both systems work, and work well. We haven't had an easy time of it, however, during the last few months, and in neither country did the banks come through unscathed. What impresses every American is the simplicity and uniformity of the Canadian banking system. Only a baker's dozen of chartered institutions, but with nearly 5000 branches! In the many discussions of this subject which I have listened to from time to time, I have heard some very unfair and untrue criticisms directed against the Canadian systems. One of these is that it doesn't build up the country. The facts here mentioned seem to me to be the best disproof of any such assertion. Another objection made is that the system savors of monopoly. I don't believe this to be true. I think the business borrower gets just as fair treatment in Canada as elsewhere.

The warnings printed each month in the Protective Section of the JOURNAL will do more than to save money for your bank. They will save annoyance and loss of time. The more attention given to these warnings the shorter will be the career of each bank crook.

Condition of Business

(*Continued from page 32*)

stocks, representative averages of which rose more than 4 points to new highs for the year. These gains appeared to reflect the removal of apprehension as to possible political action which might affect the position of the roads rather than any improvement in their economic situation. For the first four months of this year the net operating income of Class I roads was practically the same as in the corresponding period of 1923, a decrease in gross revenues resulting from smaller traffic being offset by reductions in operating expenses, mainly in maintenance of equipment. Reports for the month of May, however, issued by the end of June showed a decline in aggregate net income of over 30 per cent as compared with May of last year.

There was also a substantial recovery in the industrial list amounting to between one-third and one-half of the decline which had occurred earlier in the year. A feature of the market late in June was the rise in United States Steel common to par for the first time in three months.

Factory Employment Smaller

THE declining tendency in factory employment became more pronounced in May. A reduction of 4 per cent, reported for the country at large by the Federal Department of Labor, reflected declines in almost all reporting industries, and when added to the previous month's decline marked the sharpest decrease in employment since the end of 1920. The released workers were absorbed to a considerable extent in outdoor occupations such as farm work, building and road construction, according to the employment offices, so that except in certain textile and shoe centers in the East there appeared to be no large amount of unemployment generally.

For the first time in nearly two years, earnings of factory workers declined, and the May figures were slightly lower than a year previous, due chiefly to reduced working time. Wage rates have not generally been reduced, except in certain New England shoe and textile factories and in the coke producing regions of Pennsylvania and Ohio.

Smaller Crops Forecast

ACCORDING to the June report of the Department of Agriculture, the average condition of crops was lower than at this season in any of the past twelve years, for which composite figures are available. The condition of the cotton crop was placed at 65.6 per cent of normal, the lowest in over fifty years, excepting only 1920, and 5.4 points lower than a year ago, largely because of unfavorable conditions in Texas and Arkansas. Until the acreage under cultivation is more definitely determined, however, estimates of the probable size of the crop are subject to considerable revision. Good growing conditions during the balance of the season often make up for a poor start. The boll weevil is a big factor with which the crop has to contend, and the extent of its depredations this year cannot yet be estimated.

The combined spring and winter wheat crop at 76.0 per cent of normal was 3.9 points lower than a year ago, and this decline in condition, together with a reduction in acreage planted of 8 per cent, forecasts a wheat crop 12 per cent smaller than last year. The following table in millions of bushels compares the June forecasts of yields this year with the final estimates for 1923 and with a five year average.

Crop	1918-1922 Average	1923	1924 June Forecast
Winter wheat....	625	572	509
Spring wheat....	256	213	184
All wheat........	881	786	693
Oats	1,303	1,300	1,232
Barley	186	198	160
Rye	78	63	63
Peaches	44	46	53

Following the publication of the June estimates, wheat prices advanced 10 cents a bushel to $1.24, the highest level in a year, and corn rose to 99 cents at Chicago on June 26, or about 20 cents higher than in the first week of June. Cotton, on the other hand, held steady despite the low estimate of condition, and at 30.50 cents a pound on June 26 was about a cent below the average price of May.

Building Continues Large

CONTRACTS for building construction awarded during May in thirty-six states totaled $419,000,000, or 13 per cent smaller than in April, and 3 per cent smaller than in May of last year, according to the F. W. Dodge Corporation. The decline from April resulted chiefly from a decrease of

35 per cent in the New York district, following the very large reduction during April in building permits issued in New York City. For all other reporting sections awards in May were practically the same as in April.

The decline in the New York district was due largely to a further decrease in residential awards, which accounted for 49 per cent of the total compared with an average of 60 per cent in the preceding four months. As shown in the following table, however, the percentage of residential to total building for the first five months continued higher than in other districts.

First Five Months of	Per Cent. Residential to Total Building: New York State and Northern New Jersey	Per Cent. Residential to Total Building: All other Reporting Districts
1920	22	24
1921	56	28
1922	53	35
1923	63	39
1924	59	43

Despite the sharp decline in May, the monthly average of total awards in the New York district during the first five months of this year was 67 per cent larger than in the corresponding period of last year. For all other reporting sections, however, contracts averaged 5 per cent smaller than last year.

Europe on the Mend

AS pointed out in this Journal recently, there is no more reliable indication of the progress which the nations of Europe are making to restore themselves than the rate at which they are returning to gold as a basis of currency. Initial steps in this direction have been taken by Poland, Hungary, Lithuania, Latvia, Esthonia, Czechoslovakia and Danzig.

Additional evidence of greater stability among the currencies of central Europe is furnished by reports to the Federal Reserve Bank of New York, summarized below, from the banks in New York City which are the principal shippers of United States currency to foreign countries.

(In Thousands of Dollars)

Month 1924	Shipments	Receipts
January	5,694	1,374
February	6,989	1,463
March	2,095	2,074
April	940	2,601
May	292	4,906

Month 1924	Net Shipments	Net Receipts
January	4,320	.....
February	5,526	.....
March	21	.....
April	.....	1,661
May	.....	4,614

For several months prior to March, shipments of our currency for use as a circulating medium abroad were on the increase, principally to countries in central and eastern Europe. But beginning in March, shipments fell off sharply, while in April and May there was an increasing return flow of currency, which had been in circulation abroad but which was now no longer needed.

Many banks have copies of the JOURNAL go to homes of their executives.

Warnings

Read the Protective Section of the Journal for Warnings Which May Prevent Losses to Banks.

An English Investor's Reply to a Promoter

THERE was a time in merry England, and in other countries, too, when commercial endeavor was not taboo merely because it was at variance with the laws of another nation. But that time has passed, seemingly, not to return, for though smuggling liquor into America is by all accounts a thriving business, a proposition to openly and brazenly finance a rum-running expedition to the United States has aroused resentment.

"I have received," says a writer in *The Nation* and *The Athenæum* of London, "a circular letter from Lieut.-Col. Sir Brodrick Hartwell, Bart., kindly inviting me to share in 'a good thing' that he has in hand. I have not the honor of the acquaintance of Lieut.-Col. Sir Brodrick Hartwell, Bart., and I assume therefore that many others outside his personal circle have received a similar invitation to share in his benefactions. He is—not to put too fine a point on it—engaged in the smuggling business. He is a rum-runner who desires to take me into partnership in the laudable task of providing Americans with wines and spirits contrary to the law of the land. I call it laudable because, according to Lieut.-Col. Sir Brodrick Hartwell, Bart., the unhappy American people are in servitude to a wicked law which has 'never been put to the vote.' How it has come about, by what mysterious agency a free people has become enslaved to a law it does not want, is not explained. Enough for us to know that it is the deliverance of a people from an iniquitous thraldom to which we are invited. It will, by a happy coincidence, be a profitable work as well as a battle for freedom. I send, say, my £100 to Lieut.-Col. Sir Brodrick Hartwell, Bart., and he delivers the rum at the safe distance of twenty miles from the coast, and guarantees, 'barring marine accidents' (for which the underwriters are responsible), to return my money plus 25 per cent within sixty days from the date of shipment. The worthy baronet gives me the assurance that I shall be in the most reputable company in this humane work, which, incidentally, is estimated to transfer £3,000,000 a month from the thirsty Americans to the deserving distillers of Scotland.

"I have not so far availed myself of this invitation to share in the work of emancipation. I do not like the prohibition policy; but it is the law of the United States, and so long as that is the case it is the duty of a foreign power to respect it. I do not believe it has been passed in defiance of the will of the American people. On the contrary, it has come about by the deliberate action of the American people, and it can be reversed by them as soon as they see fit to reverse it. Nor do I accept the facts and figures which Lieut.-Col. Sir Brodrick Hartwell, Bart., offers me in proof of the suggestion that the American continent is watching the heroic activities of the smugglers with emotions of gratitude. That there is a great deal of evasion of the prohibition law is undeniable; but I doubt whether relatively it is considerable, and all the disinterested evidence obtainable goes to show that the law is working. In any case, its maintenance or abandonment is the affair of the American people, and it is a slur on the honor of this country that this vast illicit traffic should be organized here to defeat the internal policy of another nation for the shabby motive of enabling Lieut.-Col. Sir Brodrick Hartwell, Bart., and his kidney to make enormous profits."

The effrontery of the proposition was discussed in Parliament, and from that discussion it appears that public sentiment in Great Britain will approve of any governmental effort to prevent smuggling of liquor to America.

Proceedings of Savings Conferences

The addresses delivered at the Regional Savings Conferences held under the auspices of the Savings Bank Division of the American Bankers Association, in Los Angeles, Feb. 27 and 28; New Orleans, March 14; Chicago, March 19 and 20, and New York, April 24 and 25, have been printed for distribution. Copies will be sent to all delegates registered at the conferences. Additional copies are available and will be sent to those who request them.